Walt Disney Productions Annual Report 1981

FINANCIAL HIGHLIGHTS

(Thousands of dollars, except per share data)	**1981**	1980	Change
Revenues	**$1,005,040**	$ 914,505	+10%
Net income	**121,480**	135,186	−10%
Per share	**3.72**	4.16	
Cash dividends	**32,406**	23,280	+39%
Per share	**1.00**	.72	
Additions to property, plant and equipment	**348,788**	160,300	+118%
Additions to film production costs	**55,454**	68,409	−19%
Stockholders equity	**1,167,118**	1,074,798	+9%
Per share	**35.99**	33.22	

STOCK TRANSFER AGENT AND REGISTRAR
Bank of America, N.T. & S.A., San Francisco

STOCK EXCHANGES
The Common stock of the Company is listed for trading on the New York, Pacific and Swiss Stock Exchanges.

INDEPENDENT ACCOUNTANTS
Price Waterhouse, West Los Angeles

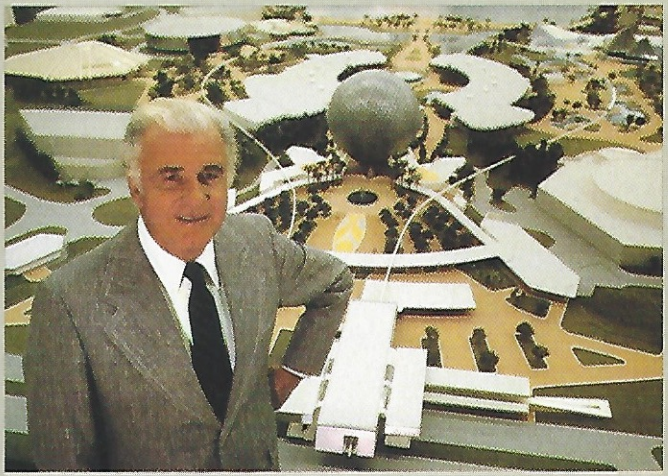
ANNUAL MEETING OF STOCKHOLDERS
Thursday, January 28, 1982

OTHER INFORMATION
A copy of the Company's annual report to the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request to the Secretary, Walt Disney Productions, 500 S. Buena Vista Street, Burbank, California 91521.

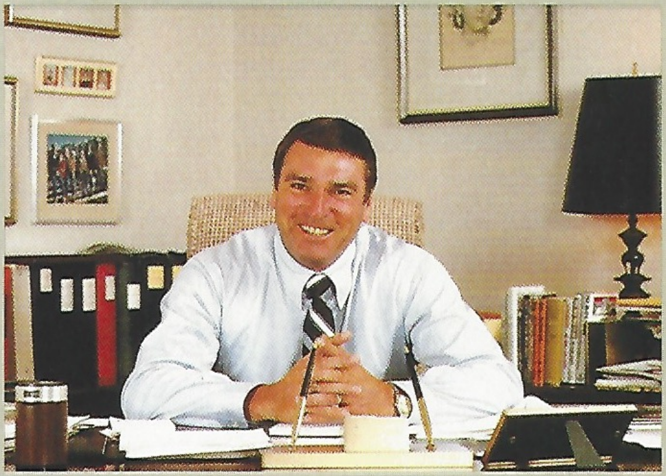
Walt Disney Productions makes available to its stockholders a Dividend Reinvestment Plan. Those wishing a pamphlet about the plan should write to the Stockholder Relations Department, Walt Disney Productions, 500 S. Buena Vista Street, Burbank, California 91521.

The 1981 Annual Report salutes Walt Disney World's Tencennial and the thousands of Disney family members worldwide whose dedication guarantees the continued success of the Company.

TO OUR SHAREHOLDERS, EMPLOYEES AND ASSOCIATES:



E. Cardon Walker, Chairman of the Board and Chief Executive Officer



Ron Miller, President and Chief Operating Officer

An entire new era of Disney magic is about to dawn in every segment of our business—from films to outdoor recreation, from home entertainment to consumer products—and the past several years served to create the necessary foundation.

Fiscal 1981, with the second best results in the Company's history, was a year of transition. Preparations were made for what we believe will be a period of our greatest growth ever.

We experienced our 14th consecutive year of record revenues, a fact made all the more significant because those revenues passed the billion-dollar mark for the first time. For the fiscal year ended September 30, 1981, revenues increased 10% to $1,005,040,000, while net income decreased 10% to $121,480,000 or $3.72 per share.

The decline in net income is attributable to two main factors: the disappointing domestic results of several live-action films and lower interest from investments resulting from planned Epcot Center expenditures.

Each of our major business segments will be reviewed in detail elsewhere in this report, so we would like to talk here about the future—where we are going and how we plan to get there.

Motion Pictures continue to represent the creative heart of your Company and we have a corporate commitment to strengthen our position in that market. Audience tastes for live action movies continue to change swiftly and unpredictably. We know we must attract more teen-agers and young adults.

To meet that challenge, we believe we have developed a compelling 1982 lineup of films that will have the originality, innovation and technical mastery that both the Disney and young adult market is looking for. We also have a new, young vice president for film production, Tom Wilhite, who is tuned in to the youth market. We believe that Tom and his young, creative team have the talent, vision and personal commitment to make films work for us.

We are convinced that our new films for the coming year could be the most exciting in our history. We believe we have a number of films on our schedule that will be right on target for young audiences, with contemporary and relevant themes that will also reflect essential Disney values.

They include: "TRON," a futuristic adventure using state-of-the-art optical and light effects and computer-generated imagery; "Never Cry Wolf," directed by Carroll Ballard whose credits include the marvelous and successful "Black Stallion," and Ray Bradbury's "Something Wicked This Way Comes," based on his novel that sold 18 million copies.

"Night Crossing," the true story of a courageous and suspenseful escape from East Germany, and "Tex," starring teen-age idol Matt Dillon, will also have broad audience appeal.

This past summer we released our latest animated feature, "The Fox and the Hound," and it did outstanding business, with our share of the domestic box office in excess of $18 million. Based on our strong record of acceptance in foreign markets, we expect that the movie will eventually surpass the Company's leading animated feature, "The Rescuers," in world-wide grosses for an initial release. In comparison, Disney has earned $14 million from "The Rescuers" in the U.S. and $44 million worldwide since its 1977 release.

The success of "The Fox and the Hound" is particularly reassuring for our future since the film was primarily the work of a talented new generation of Disney animators. To increase our productivity in animation, we have significantly strengthened our capabilities. Our creative animation staff has grown from 81 artists in 1979 to a current staff of 127. We now have the ability to produce two animated features simultaneously for release 18 months to two years apart.

Epcot Center, the single most ambitious project in our history, is progressing on schedule for its October 1, 1982 opening. Total costs of those attractions and exhibits operational on October 1 will be approximately $800 million. By the end of Epcot Center's first full year, an additional $150 million will have been spent on planned expansion and enhancement.

As the project's first phase nears completion, our excitement will spill over to the public as we begin an aggressive marketing campaign. "We Can Do It!" is the byword of our construction force, at WED Enterprises and other areas of the Company where the primary responsibility resides for meeting the grand opening deadline of October 1, 1982. Epcot Center will have immeasurable impact on all areas of the Company when we open.

Tokyo Disneyland is progressing on schedule for its 1983 opening. Fifteen of Japan's leading companies have joined Tokyo Disneyland as corporate participants, a heartening expression of confidence in the venture.

Our network television activities have never been busier or brighter. We see our first season at CBS as a transitional year for us. While our programming takes our traditional anthology approach, including theatrical films, cartoons and real-life adventure stories, we are also doing eight hours of pilot programming that will air as part of the anthology. We are looking ahead to development of possible spin-offs into separate weekly episodic series, expanding our total TV presence.

Our entry into pay cable television is the most exciting and significant new business opportunity for the Company since we opened Disneyland and Walt Disney World. We announced the Disney channel, a joint venture with Westinghouse Broadcasting (Group W), at a major press conference in New York City in November.

Under the terms of the venture, a Disney family channel will be created to produce and operate a 16-hour-a-day pay cable programming service beginning in late 1982 or early 1983.

Westinghouse is providing two transponders on the Western Union satellite Westar V, to be launched in the fall of 1982. Our programming will be delivered to the cable subscriber by way of the most sophisticated and advanced means in the medium today.

We plan an unprecedented effort in original programming production designed for the American family that will be a startling departure from what is currently available in the home.

Most important, for the long term, is the joint venture's plan to invest up to $100 million over the next three to four years for a wide spectrum of new, bold and innovative programming.

Our target audience for the Disney channel will be the entire family. Unique programs, both entertainment and educational, will be specifically aimed at each family segment, including pre-school

age and other youngsters, teen-agers, young adults and senior family members.

An important source for the channel will originate from Epcot Center. Special productions from Epcot will bring viewers new frontiers in entertainment, education, imagination and discovery. And, we plan a fully equipped video studio for programming that would emanate from Epcot.

Our existing library, probably the largest single resource of family films in the world, will give us a strong base to build upon to meet our schedule commitments. We will also supplement that base by searching the world to acquire other quality programming that is appropriate for our channel.

The new company will be headquartered in Stamford, Connecticut, the site of Group W's current cable programming operations. The company, equally owned by its partners, will operate independently with its own programming, marketing and administrative personnel, including its own president.

Group W has a long history of innovation in broadcasting and a well-earned reputation for the highest standards of programming consistent with family ideals. It will be a pleasure working with them.

During 1981, we completed a Eurodollar public offering of $100 million to provide the funds for current expansion projects. It is part of an overall financing strategy that gives us flexibility in uncertain economic times.

As an additional part of that strategy, we have also received top ratings from both Moody's and Standard & Poor's for up to $150 million of potential Disney commercial paper. The commercial paper would be supported by our $200 million line of credit that can be increased to $300 million at the option of the Company.

As our Epcot Center slogan says, "The 21st Century begins on October 1, 1982." It is a slogan that applies to Walt Disney Productions as a whole. We are on the threshold of a new beginning for the Company as we broaden our base for expansion with the openings of Epcot Center and Tokyo Disneyland, our entry into pay cable TV and revitalized motion picture production.

Together, these events will have considerable impact on the future of Walt Disney Productions in the '80s. You can be confident that your Company is strong and vibrant and its future has never looked brighter.

November 30, 1981

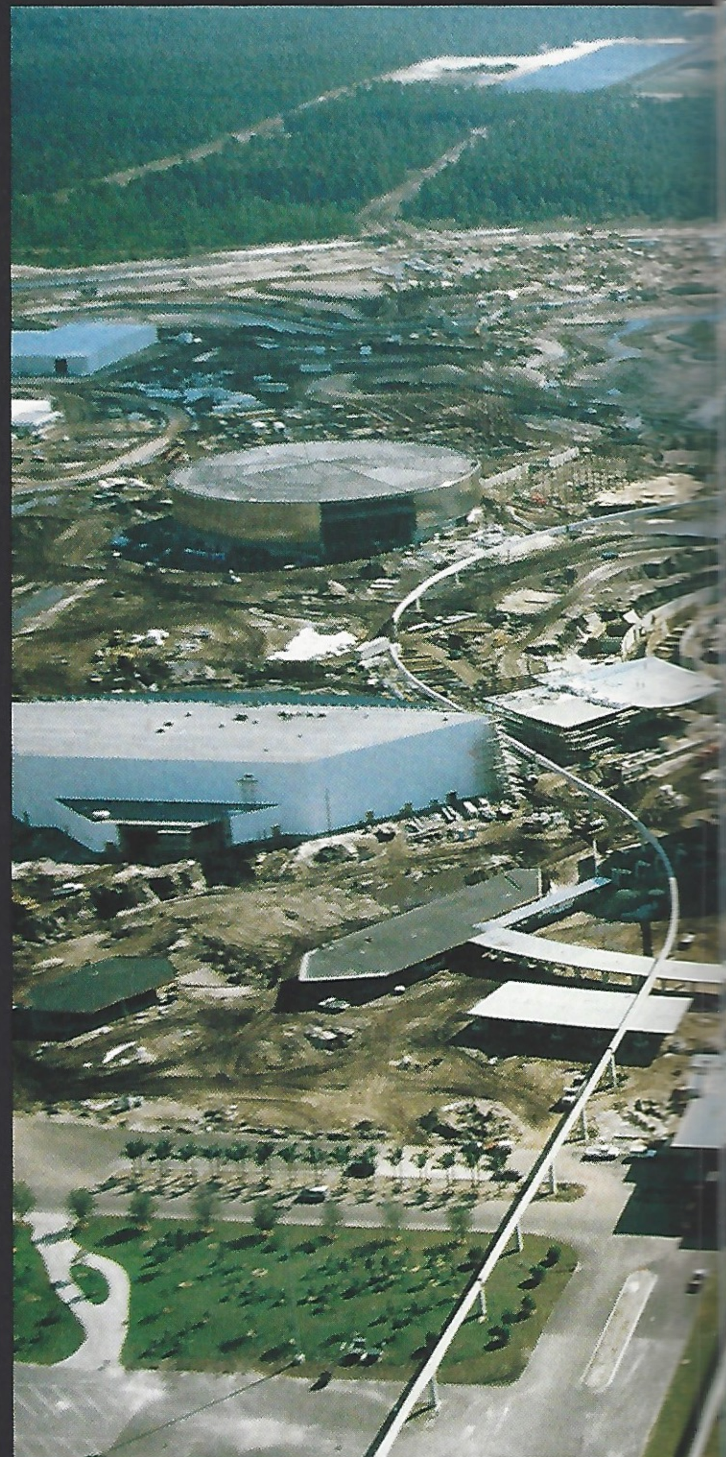
Card Walker

Card Walker
Chairman of the Board and
Chief Executive Officer

Ron Miller

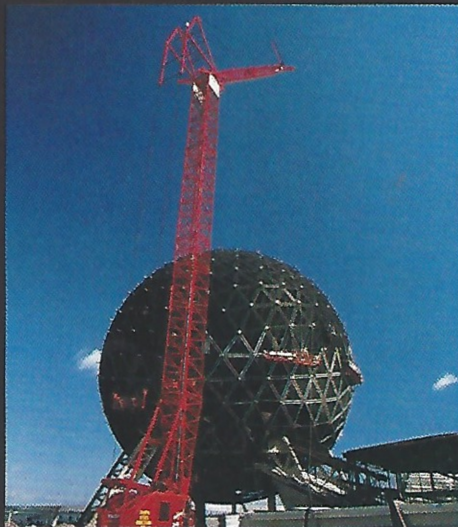
Ron Miller
President and
Chief Operating Officer

Epcot Center, a monument to man's progress—and, more importantly, his promise—is dramatically moving towards completion. The 21st Century will indeed begin on October 1, 1982, when the first guests enter Spaceship Earth for the initial leg of their journey through the most spectacular and extraordinary complex ever conceived for the entertainment and education of people the world over. The photographs on these pages more adequately describe Epcot Center than can any words, and yet even they cannot properly convey the scope, the depth, the dimensions or the hope of Walt Disney's greatest dream.



This aerial photograph shows the dramatic progress being made in construction of Epcot Center, the colossal showplace which is on schedule for its October 1 opening. In the foreground is Spaceship Earth, surrounded by the rest of Future World, while across the lagoon World Showcase is also taking its final shape.

SPACESHIP EARTH

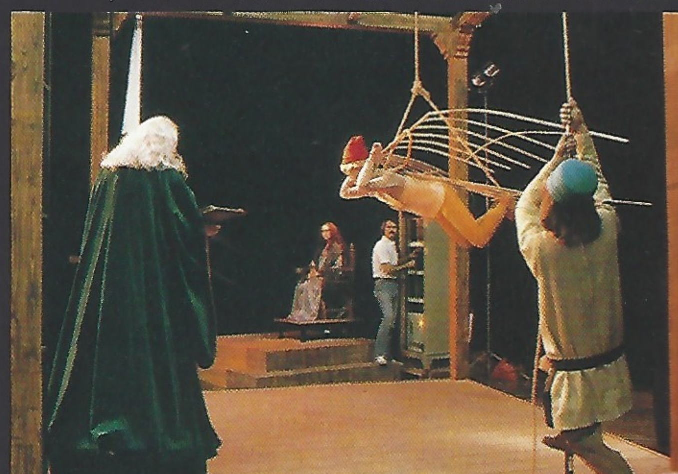


Exterior of spectacular 172-foot geodesic dome, the keystone of Epcot Center, nears completion as finishing touches are put on interior displays.

Magic of computerized Audio-Animatronics brings to life such figures as Gutenberg and the beginnings of mass communications. Spaceship Earth is presented by the Bell System.

THE WORLD OF MOTION

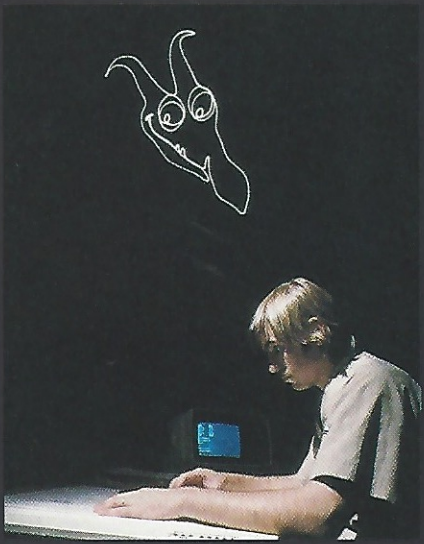
The World of Motion, large enough to house all of the Magic Kingdom's Main Street, honors man's age-old quest for freedom of movement.



The largest cast of Audio-Animatronics figures ever assembled will lead visitors to the General Motors presentation on a grand "roadshow" through the history of transportation.

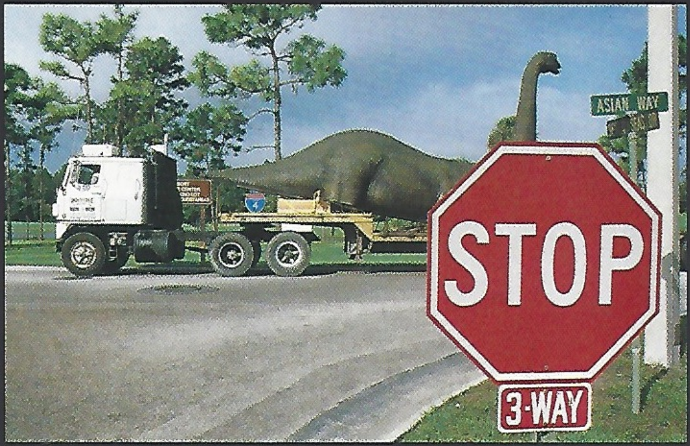
JOURNEY INTO IMAGINATION

Kodak's Journey Into Imagination will take visitors beyond time and space where they will be given the tools for a dazzling adventure.

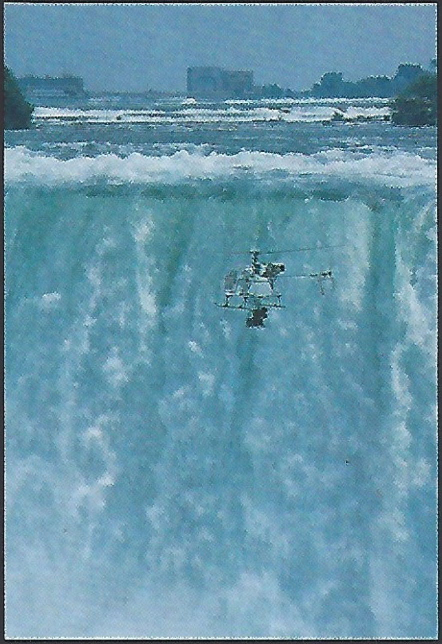


Lasers, computer graphics and other state-of-the-art systems come together to form the world of imagination.

UNIVERSE OF ENERGY

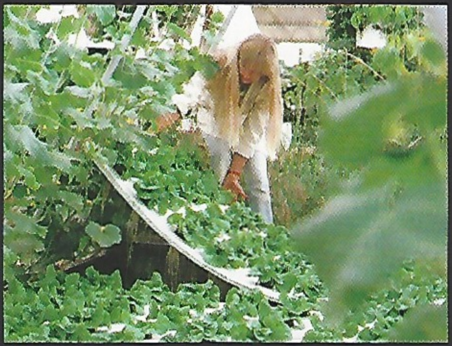


The World of Energy, presented by Exxon, is an enormous solar-powered facility which will house such prehistoric beasts as the one shown here making final leg of its journey.



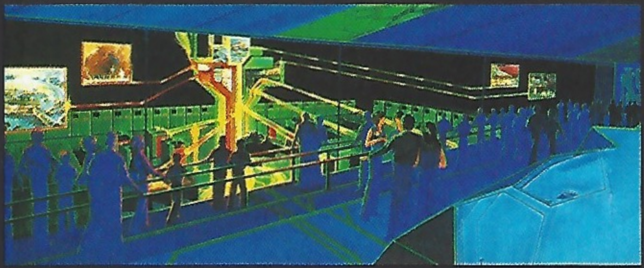
Circle-Vision 360 camera crews dared such areas as Niagara Falls for segments of colorful energy show.

THE LAND



The Land, presented by Kraft, Inc., will house a brilliant combination of entertainment and state-of-the-art (and beyond) agricultural methods.

COMMUNICORE



Future World's global Main Street of ideas and inventions will feature Epcot Computer Central, presented by Sperry-Univac—a first-hand look at the electronic wizardry that runs the vast Walt Disney World recreation complex.

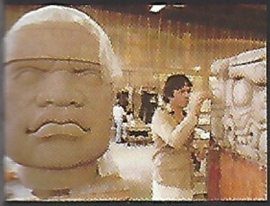
WORLD SHOWCASE

A panorama of greatness is the focus of the American Adventure, presented by American Express and Coca-Cola. With Benjamin Franklin and Mark Twain as guides, visitors will relive history.

A Circle-Vision 360 presentation of North America's greatest remaining frontier highlights the Canada Pavilion.

Great artworks symbolize profound contributions to the world at the Italy Pavilion.

The French Pavilion will also make heavy use of the spectacular effects of Circle-Vision 360.



Early cultures and their contributions to Mexico's modern prominence are featured in that nation's pavilion.

The United Kingdom Pavilion takes on its historic proportions.

The Federal Republic of Germany Pavilion will feature replicas of its world-renowned sculpture.

Disney's Circle-Vision 360 crew was the first Western filmmaking unit allowed into the People's Republic of China in more than three decades.

Framework makes the Japan Pavilion easily identifiable.

Bob Hope takes a turn as grand marshal of Tencennial Parade.

By any measure it has been a spectacular 10 years since the first 10,000 guests marveled their way through Walt Disney World's Magic Kingdom on October 1, 1971.

Already more people have visited Walt Disney World than have toured the Eiffel Tower, the Taj Mahal, the Tower of London or the Great Pyramids of Egypt.

Attendance at the end of the fiscal year stood at 126 million, more than double the figure projected by some industry experts at the time Roy O. Disney officiated at the opening a decade ago.

And Walt Disney World's impact on Central Florida has been awesome, as revealed in the following statistics.

☐ Tourism in the area skyrocketed from 800,000 in 1970 to 6.4 million in 1979.

☐ Airline arrivals and departures went from 1 million to 6.5 million and were the catalyst for the construction of a new international airport in Orlando.

☐ Revenues from tourists went from \$3.6 million to \$17 billion.

☐ Population and employment both rose 31%.

☐ Per capita income is up 161%.

☐ Retail sales are up 283%.

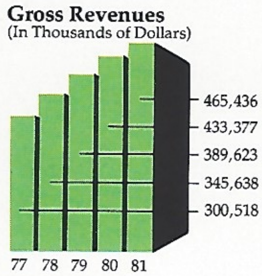
☐ Walt Disney World's gross payroll for the first 10 years is just short of \$1 billion, and taxes paid by the Company to state, county and local treasuries are in excess of \$191 million.

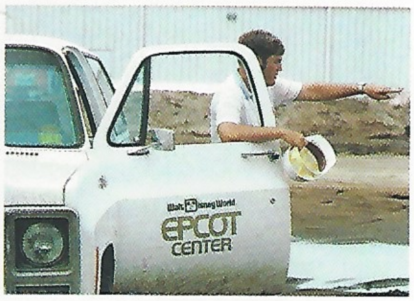
☐ Spurred by Walt Disney World's pioneering efforts, the private sector has invested more than \$2.3 billion for tourist-related facilities and services in the area.

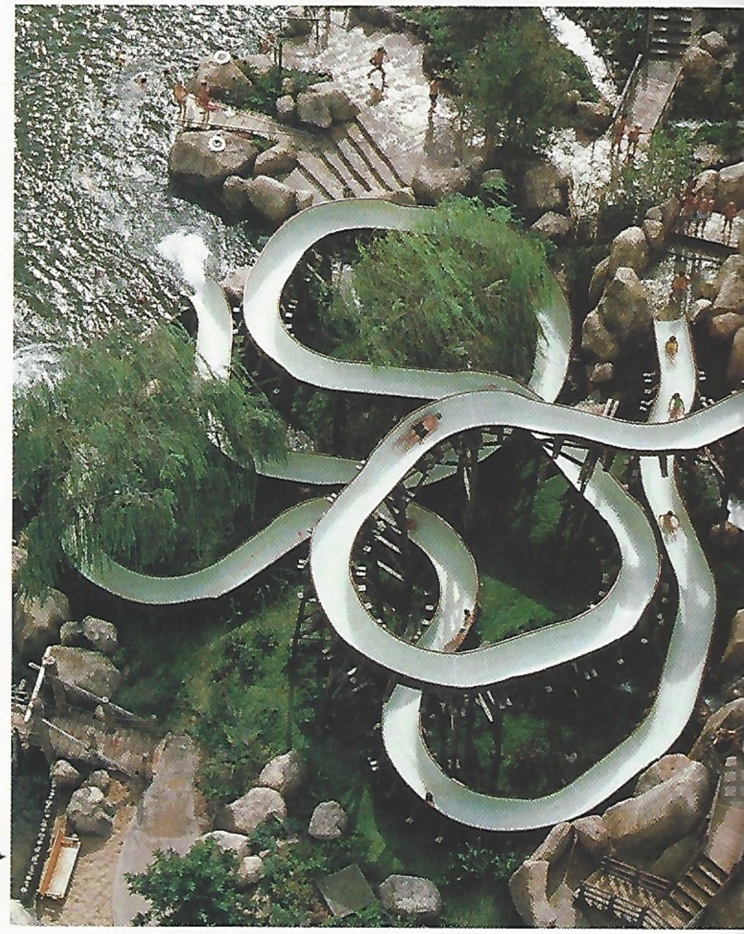
The marriage has been a profitable one for Walt Disney Productions, too. During the fiscal year that ended the day before Walt Disney World opened, the Company's revenues were \$175 million. This past fiscal year, they topped the billion-dollar mark.

And it's all just a beginning, with statistics and records targeted for radical updating and reshuffling as the countdown continues for the opening of Epcot Center October 1.

Mickey and Minnie may lead the parade, but the real stars are the talented Disney people, both on stage and backstage.







River Country remains the most popular spot at Walt Disney World for old-fashioned unstructured family fun.

Walt Disney World kicked off its Tencennial Celebration and the countdown to Epcot's opening in grand style, reporting new record revenues for the year despite an overall downturn in Florida tourism.

Revenues reached $465,436,000, up 7% from the prior year, even though attendance dropped slightly due primarily to the downward trend in the economy. Attendance totalled 13,221,000, off 4% from fiscal 1980.

The anniversary celebration had a colorful start when more than 5,000 employees gathered on Main Street for an official family portrait. The celebration continues daily with more than two hours of special entertainment for guests, including the Tencennial Parade, a "Disney World Is Your World" musical show and a party for guests at Cinderella's Castle.

And the spectacular festivities continue through September 30, when the focus will shift to the unveiling of one of the Company's greatest achievements, Epcot Center.

More than 1.3 million people have already visited the Epcot Preview Center which opened in June in Town Square. Here guests are treated to a special film presentation, models of the pavilions, artists' renderings, construction updates and an overall introduction to the exciting times ahead.

Looking beyond the October 1 opening of Epcot Center and to meet the accompanying increased demand for lodging, more than 5,500 additional guest rooms are either under construction or in the advanced planning stages. When they are completed, the Company will be in the position to comfortably house and feed more than 25,000 overnight guests on a daily basis.

On the drawing boards are:

☐ Expansion of such existing Company facilities as the Polynesian Village, the Golf Resort and the Conference Center Villas.

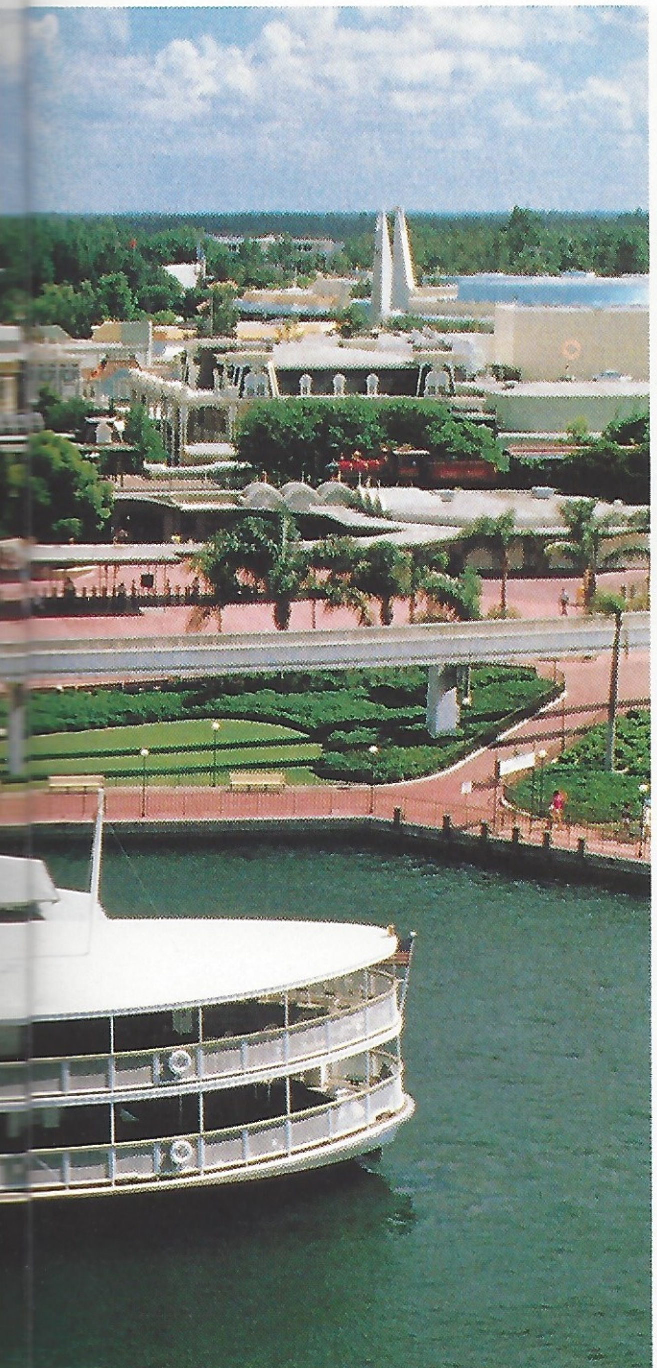
☐ Construction of three new themed-hotel areas—the Mediterranean, the Cypress Point Lodge and the Grand Floridian resort, all to be owned and operated by the Company.

☐ Four new hotels on land leased from the Company. At the end of the fiscal year, negotiations were proceeding for an 850-room Hilton hotel, a 1,500-room Marriott facility, and with the Loew's chain for a 650-room hotel. In addition, construction is proceeding on schedule for the 850-room Buena Vista Palace.

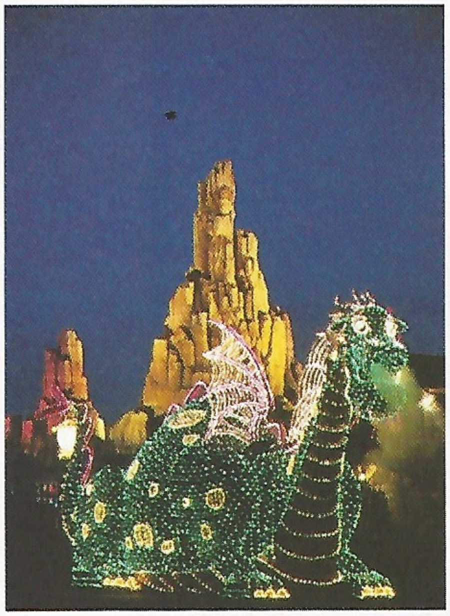
Overall, the Company's plans considerably brighten Central Florida's economic future and enormously strengthen the area's position as the world's number one vacation resort destination—a distinction visualized only by the dreamers and doers of Walt Disney Productions a little more than a decade ago.

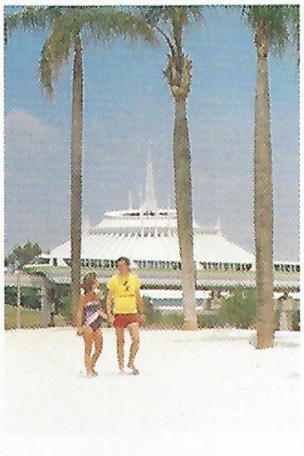
For spectators and participants alike, Walt Disney World's attractions are unparalleled.

The world's number one resort destination has its quiet moments, too.

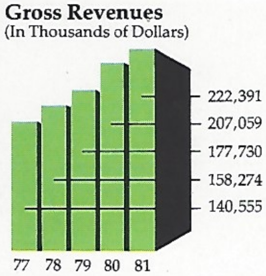


Dazzling Tencennial Celebration will continue up to the opening of Epcot Center on October 1.





Year-round tropical climes offer time and space for relaxation.



Disneyland remains America's favorite theme park.

America's most celebrated theme park continued to stagger the record books during the past fiscal year. Total attendance for Disneyland's 26 years of operation is now approaching the total population figure for the United States, topping the 200 million mark last January and resting at 209,327,727 at the end of the year.

Attendance for the year ended September 30 was 11,343,000, off only 2% from the all-time high established during the park's 25th anniversary celebration the prior year.

Gross revenues also continued to climb, topping last year's record by 7%. Revenues for the year ended September 30 reached $222,391,000, up from $207,059,000.

And, true to Walt Disney's promise that the park would never stop growing or ever grow old, that it would always be in a state of beginning, plans were being completed at the end of the year for a total revitalization of one of Disneyland's most familiar areas.

Preparations have begun for an all-new Fantasyland, a project that will take more than 18 months but will result in what promises to be an extraordinary entertainment experience beginning in June of 1983.

Fantasyland will feature a delightful new Pinocchio attraction, new dining facilities and spectacularly updated adventures of Snow White, Mr. Toad and Peter Pan—all new shows, all making maximum use of state-of-the-art AudioAnimatronic techniques perfected at WED Enterprises.

Timed to coincide with the 60th anniversary of the founding of the Disney Studios, the Fantasyland grand opening celebration will focus on the art of animation and the classic Disney characters.

Plans include the creation of a new parade, designed to rival the Electrical Parade's uniqueness in color, sight, sound and ingenuity. It will feature the characters, beginning with a black and white Mickey as "Steamboat Willie" and climaxing with Tod and Copper from "The Fox and the Hound."

Augmented by other entertainment specials and attractions, the Fantasyland revitalization will demonstrate anew the Company's determination to build on Disneyland's reputation as the international pace-setter in family theme parks.

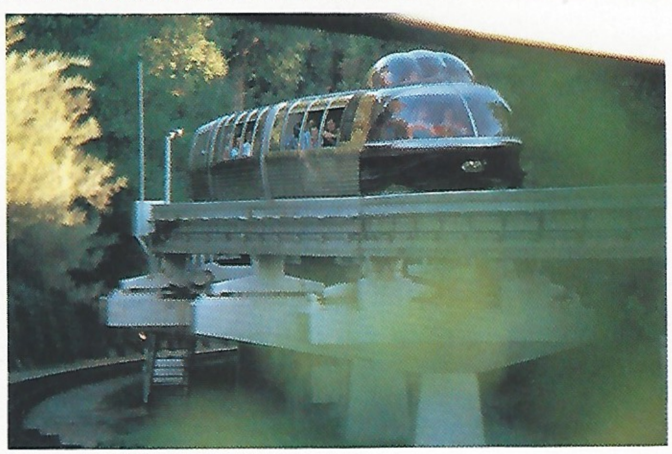
Disneyland maintains Walt Disney's promise that it would never grow old.

The world's most celebrated theme park topped the 200 million mark in attendance during the year.

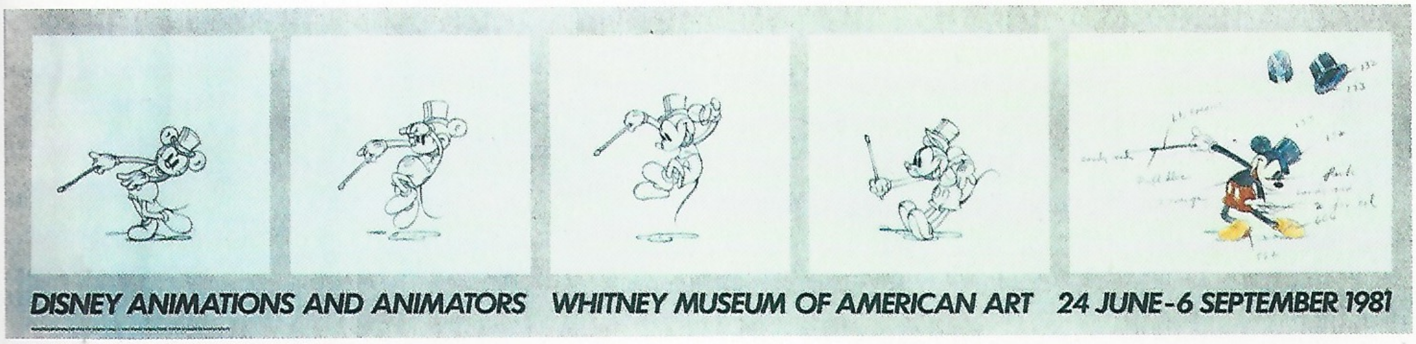
The Jungle Cruise, one of the original attractions, continues to fascinate guests.

Even on the busiest days, guests can find pockets of solitude.

Fantasyland is earmarked for a total rejuvenation, scheduled to open in June of 1983.



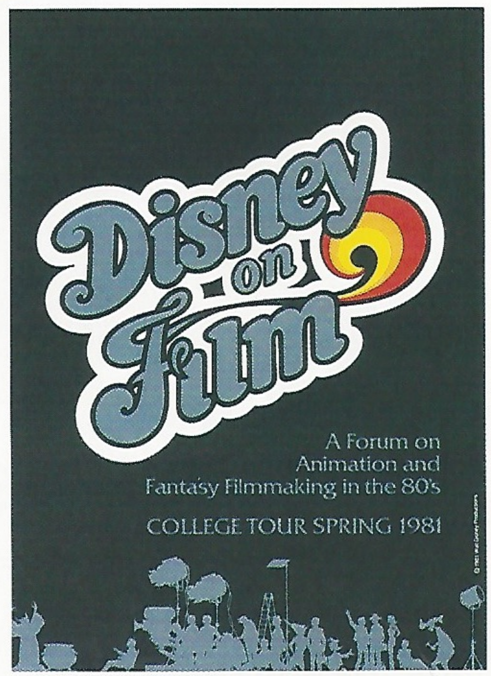
Monorail continues to attract guests with its efficiency, safety and panoramic view of Disneyland.



More than 500,000 visitors to the prestigious Whitney Museum of American Art in New York City enjoyed a major summer exhibition, "Disney Animation and Animators." The spectacular display presented more than 1,500 drawings, painted cels, backgrounds and 115 films. Concurrent with the exhibition, Disney film programs were presented throughout the summer.

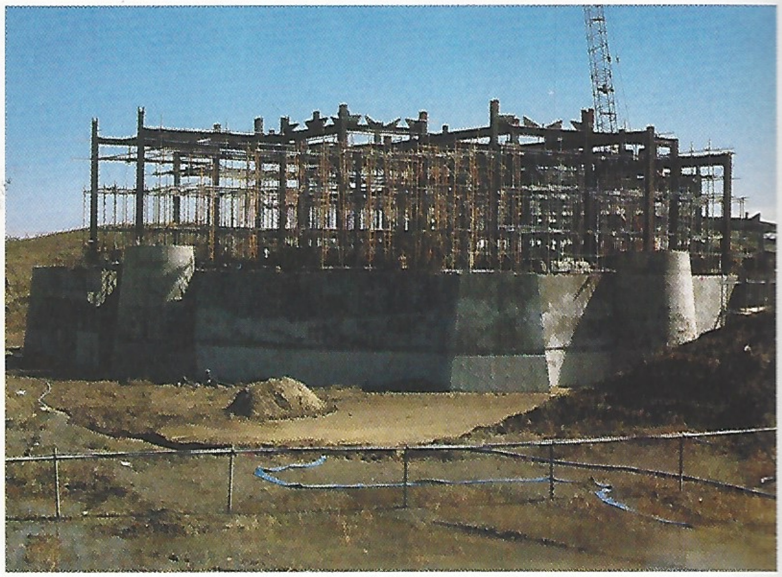
In October the Disney-developed WEDway PeopleMover made its first debut as a mode of public transportation outside our theme parks. The unique PeopleMover is now efficiently propelling six three-car trains over a 7,500-foot route between the Houston International Airport's terminals, hotel and parking lot.

The first eight-week session of the Disney School of Animation (DSA), a program specially designed to meet the Studio's growing demand for quality animators, reached a successful conclusion in October with all 14 of the candidates moving directly into production work on a variety of animated Studio projects. A second session is scheduled to begin February 1 with still a third planned for June.



Six teams of animators, writers and producers brought the magic of Disney to 33 major universities across the country early in the year, generating unprecedented community and media reaction. The tours, designed as part of the overall "The Fox and the Hound" promotion compaign and as an Animation Department recruitment aid, scored impressively wherever they went. Cities included New York, Boston, Washington, Salt Lake City, Detroit, Miami, Dallas, Des Moines, San Francisco, Portland, Seattle, Milwaukee, St. Louis, Philadelphia, Pittsburgh, Chicago and San Diego.

Space Mountain's shape makes it easily identifiable while only the moat hints at beginnings of Cinderella Castle.



Like a piece of spectacular sculpture, the new jewel of the Orient is being shaped and chiseled on what only a year ago was 600 acres of barren landfill in Tokyo Bay.

Tokyo Disneyland is becoming a reality as construction rolls into high gear and structures become visible from as far away as downtown Toyko. With its top in place, Space Mountain has already become a landmark and solid evidence to the millions of residents and visitors to Japan's capital city that the Company's first overseas venture is on schedule for its 1983 opening.

In addition to Space Mountain, foundations have been completed and construction begun on Cinderella Castle, It's a Small World, Pirates of the Caribbean, the Haunted Mansion, the all-new Pinocchio's Daring Journey and those attractions unique to Tokyo Disneyland—the World Bazaar, Meet the World and Magic Carpet 'Round the World.

When Tokyo Disneyland opens, it will have sufficient capacity to handle 10 to 12 million guests a year, about equal to that of the Magic Kingdom at Walt Disney World when it opened in 1971. Our location places us within an hour's travel time of more than 30 million people, a far greater population base than we enjoy in either California or Florida.

Show assembly is taking place in Tokyo from "kits" manufactured at various Disney facilities in the United States, particularly at Walt Disney World where current attractions act as living models for workmen.

The ongoing training program, which began nearly two years ago, has been intensified, particularly at Disneyland, where more than 100 employees of the Oriental Land Company, which will own and operate the facility, have experienced on-the-job training in park management, operations and maintenance along with both employee and guest relations.

An aggressive marketing campaign is scheduled to kick off early this year and will include television specials and the opening of preview centers in key population centers throughout Japan.

In the meantime, 15 of Japan's leading corporations have joined Tokyo Disneyland as official corporate participants, demonstrating their confidence in our future in their country.

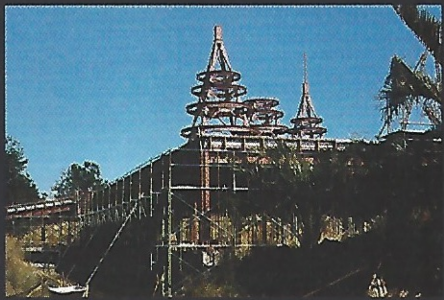
Each of the organizations will sponsor a different attraction, restaurant, service or merchandising location that will feature their name and logo and, in many cases, will showcase their products. As with Disneyland and Walt Disney World, each sponsor was carefully selected to insure complete compatibility with the Disney image. They will contribute facility construction monies and an annual participation fee.

The 15 are Coca-Cola (Japan) for Space Mountain, the Tomorrowland Terrace and the Refreshment Corner; Fuji Photo Film Co. Ltd. (the Magic Carpet and the Camera Center), House Food Industrial Co., Ltd. (Country Bear Jamboree, the Hungry Bear Restaurant and the Mile-Long Bar), Juchheim's Co., Ltd. (Pastry Palace) and K. Hattori & Co., Ltd. (New Century Clock Shop).

Also, Kikkoman Corp. (Polynesian Terrace, Plaza Restaurant), Kodansha Publishers, Ltd. (Mickey Mouse Revue), Matsushita Electrical Industrial Co., Ltd. (Meet the World), Meiji Milk Products Co., Ltd. (Crystal Palace Restaurant, Ice Cream Parlor, other ice cream facilities and the Baby Center) and the Nippon Oil Co., Ltd. (Hospitality House).

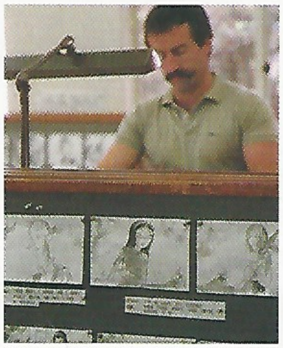
And, Prima Meat Packers, Ltd. (Diamond Horseshoe, Plaza Pavilion Restaurant), Sogo Store, Ltd. (It's a Small World), Tomy Kogyo Co., Inc. and the Tomy Co., Inc. (Western River Railroad and the Toy Kingdom), Ueshima Coffee Co., Ltd. (Center Street Coffeehouse) and the Bridgestone Tire Co., Ltd. (Grand Prix Raceway).

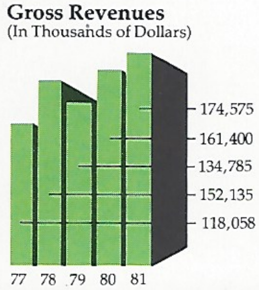
Spectacular progress on 600-acre landfill site is visible from downtown Tokyo.



Framework nears completion of It's a Small World, above, the Jungle Cruise, above right, and Pirates of the Caribbean.

MOTION PICTURES AND TELEVISION





In striving to expand our film and television audiences, we have turned to the Company's great traditions.

The name Disney has always meant fantasy, escape, high adventure and optimism—whether in comedy or drama. Perhaps more importantly, the name means innovation, originality, technical virtuosity and taking chances on new ideas.

In reviewing the films either in current or post-production for 1982 (illustrated on these pages) or those scheduled for 1983 and beyond, we think you will see why we believe our goal is now within reach.

Releases for 1982 include "Night Crossing," "TRON," "Tex," "Never Cry Wolf," "Something Wicked This Way Comes," "Fantasia" with an all-new sound track, and re-issues of "Cinderella," "Bambi" and the animated "Robin Hood."

And, the same diversity is reflected in the following future productions:

"Einstein" combines the story of one of mankind's greatest figures with the genius of Disney special effects. From an early-life biography of the man who reshaped our view of the universe, we will travel into his vast imagination through a series of spectacular visions. The state-of-the-art computer effects of "TRON" will be taken a step further in this innovative feature.

"Return to Oz" transforms the L. Frank Baum classics into a unique, magical fantasy journey. For 30 years the Company has owned all of the Oz books, with the exception of "The Wizard of Oz." Bringing "Return to Oz" to the screen is writer-director Walter Murch, the co-author with George Lucas of "THX 1138" and the Academy Award-winning sound effects editor on "Apocalypse Now."

"Joshua" brings together two outstanding writers, Alvin Sargent and Pat Conroy, for this Dickensian adventure set in America during the last century. Sargent won Academy Awards for his screenplays of "Julia" and "Ordinary People" and Conroy is the acclaimed writer of the books, "The Great Santini," "Conrack," and "The Lords of Discipline." They collaborated on the story of "Joshua," which Sargent is producing and Conroy is scripting.

"Thursday til 9:00" is a contemporary comedy about a young working woman on her first job in a prestigious department store and her encounters there with a menagerie of off-beat characters. Producing are Elizabeth I. McCann and Nelle Nugent, the distinguished team which has presented on Broadway "Dracula," "The Elephant Man," "Amadeus," "Nicholas Nickleby," and other shows which have won 35 Tony Awards. Disney recently signed a deal with McCann and Nugent for the development and production of original works for motion pictures, television and the theater.

Disney's position as world leader in animation is secure. The growing staff of talented young animators is vivid proof of our bright future. A Disney School of Animation was established last year to enhance the training these artists brought with them to the studio.

"The Black Cauldron" began animation in 1981 and the early footage is dramatic evidence that this may take a place beside the great animated features.

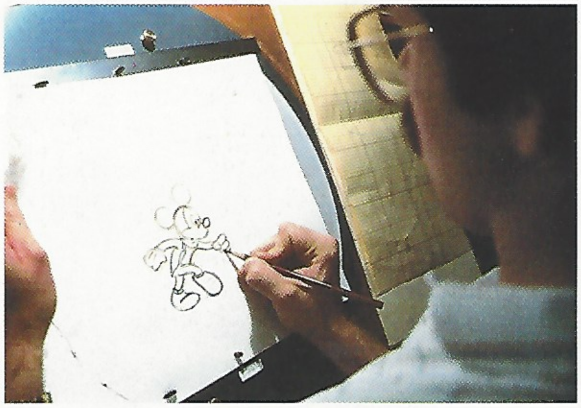
"Basil of Baker Street," a comic send-up of the Sherlock Holmes mysteries, began story development last year. Production can begin as soon as animators complete their work on "The Black Cauldron."

"Mickey's Christmas Carol" marks the screen return, after 25 years, of Mickey Mouse. The Dickens classic has been adapted as a theatrical featurette with all the Disney superstars in leading roles, including Mickey, Donald Duck, Goofy and Pluto.

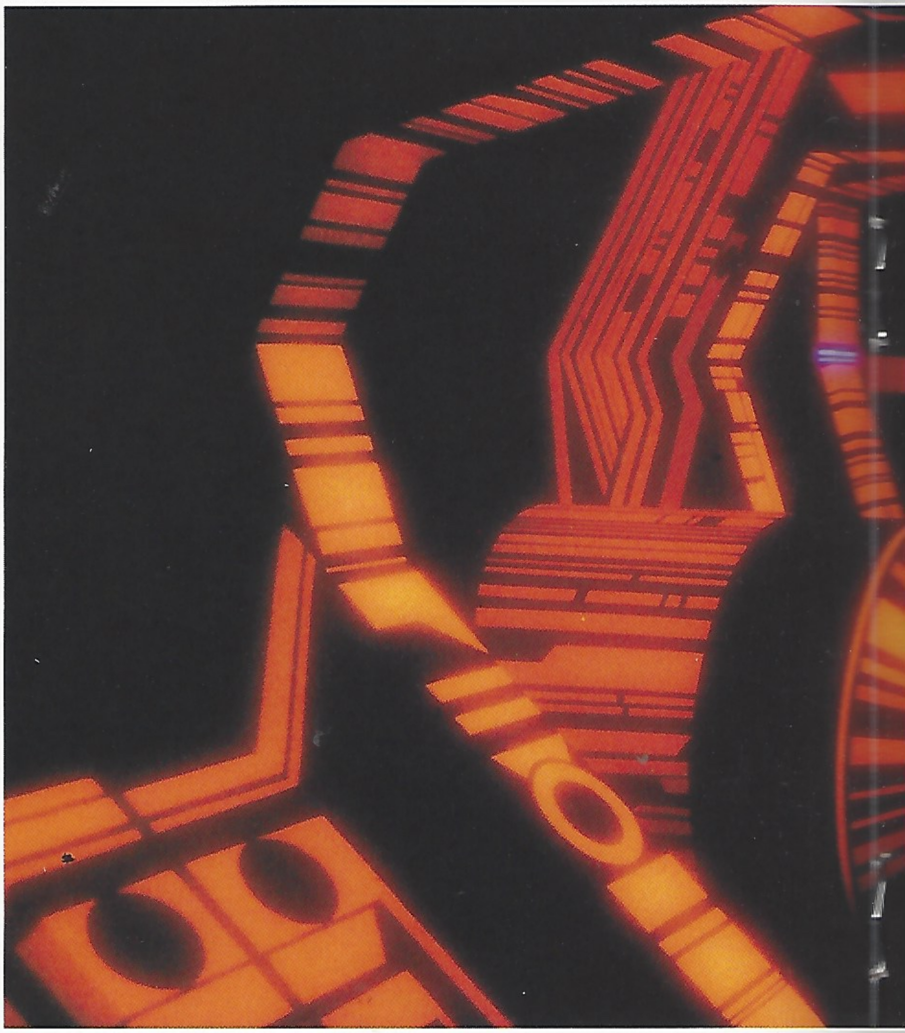
In television, a new name, a new network, a new night and a whole new lineup of action, adventure, comedy and animation have boosted Disney back into the top ratings.

"Something Wicked This Way Comes" is Ray Bradbury's renowned tale of shadowy dreams come to frightening reality. Starring two-time Academy Award-winner Jason Robards with Jonathan Pryce as the proprietor of Mr. Dark's Pandemonium Carnival, "Something Wicked This Way Comes" was filmed on a spectacular new set on the Disney backlot. The sometimes-chilling film ultimately is a celebration of the resources in each of us when danger threatens. Jack Clayton directed and Peter Vincent Douglas produced this Christmas, 1982, release.

"Never Cry Wolf," is proof that when a movie succeeds, nothing surpasses the magic. Director Carroll Ballard of "Black Stallion" fame brings to the screen his vision of a man alone in the wild, learning about nature—and, more importantly, about himself. This adaptation of Farley Mowat's best-seller stars Charles Martin Smith. Produced by Lewis Allen, Jack Couffer and Joseph Strick, "Never Cry Wolf" is scheduled for a fall release.

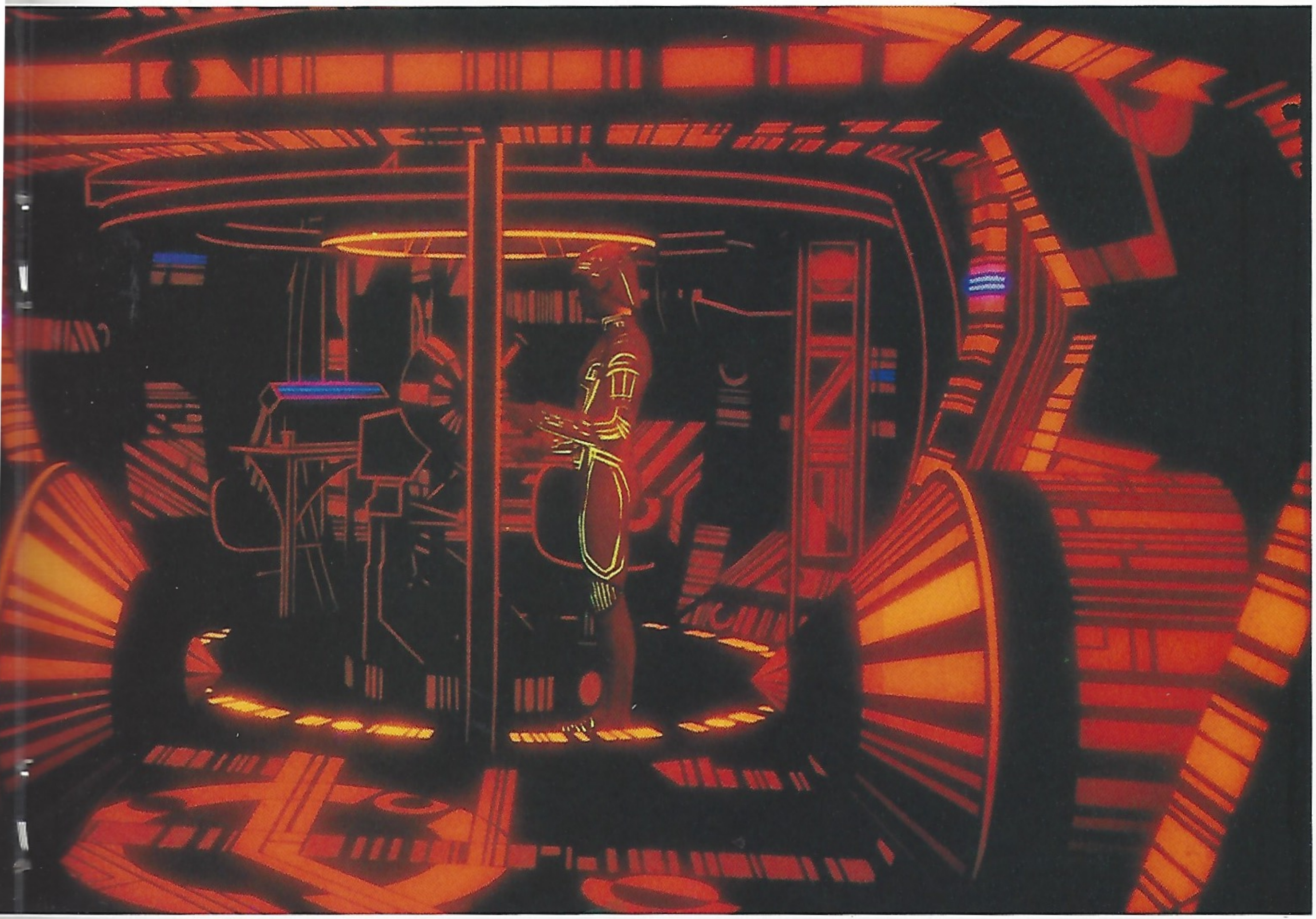


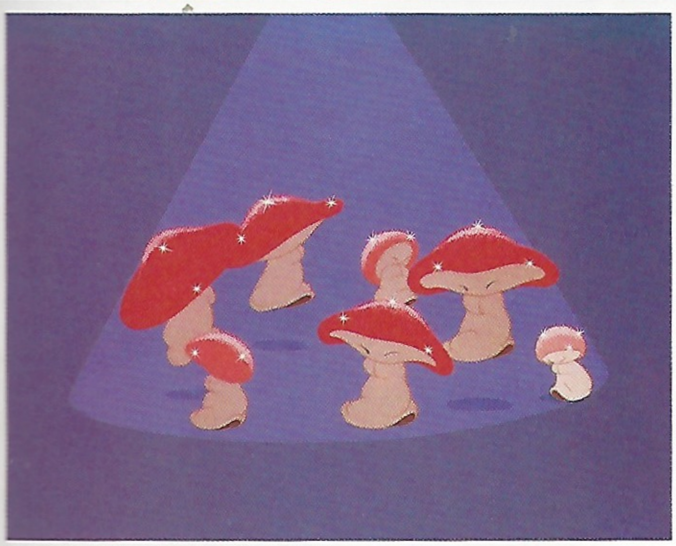
"Mickey's Christmas Carol," now in production for a Christmas 1982 release, marks the screen return of Disney's greatest star in a theatrical featurette costarring Donald Duck, Goofy, Pluto and other Disney favorites.



"TRON" utilizes milestone computer effects to take the viewer in a futuristic world where energy lives and video-game battles of good and evil are real. The most extensive use of computer-generated images and the most advanced application of light and optical effects produce what promises to be a breakthrough film for Disney and, indeed, the industry as a whole. The summer release stars Jeff Bridges, Bruce Boxleitner, David Warner, Cindy Morgan and Barnard Hughes for writer-director Steven Lisberger and producer Donald Kushner.

"Tex," scheduled for summer release, brings to the screen the acclaimed novel by S. E. Hinton, America's number one author of young adult fiction. Starring Matt Dillon and Meg Tilley, left, "Tex" is a contemporary, realistic portrait of two brothers growing up without benefit of full-time parents. The film also stars Jim Metzler and Academy Award-winner Ben Johnson. Tim Hunter wrote and directed for producer Tim Zinnemann.





"Fantasia" triumphantly returns to the screen this Easter with its spectacular symphonic score boasting new state-of-the-art sound in four-track, six-track stereo and Dolby™—promising an entirely new audience for this masterpiece.

"Night Crossing" is the suspenseful true story of the most daring escape to freedom in modern times. The Christmas, 1981, release stars John Hurt and Jane Alexander, both Oscar nominees, Glynnis O'Connor, Doug McKeon and Beau Bridges. Academy Award-winner Delbert Mann directed for producer Tom Leetch.

"Who Censored Roger Rabbit?" uncovers the crime of the century when Roger, Hollywood's top animated star, becomes the principal suspect in the murder of a real-life film producer. This totally original, inventive comedy-mystery, scheduled for 1983 release, assumes that animated characters are real and co-exist with their human counterparts. Marc Stirdivant is producing with Disney artist Darrell Van Citters directing the animation sequences.

"Trenchcoat" is a comedy-mystery scheduled for 1983 release starring Margot Kidder of "Superman" and Robert Hays of "Airplane" for director Michael Tuchner and producer Jerry Leider. The story revolves around a quiet vacation on Malta, where exotic birds sing, warm Mediterranean waves wash the beaches —and danger comes whistling through the palms.

After 24 years of Sunday evening programming on NBC, we joined the CBS Network's Saturday night lineup and, under the simplified name "Walt Disney" the medium's longest-running show has sprung back into viewing prominence.

The season includes eight new quality one-hour programs, six animated specials and eight hours of hit motion pictures from the Disney library. In addition, CBS will air two major entertainment specials produced for the Company, "Walt Disney ...One Man's Dream," and "Kraft Salutes Walt Disney World's 10th Anniversary."

Even more significant is the fact that a number of the productions are designed as series pilots, including "The Cherokee Trail," based on a special creation for Disney from the world's most successful author of Western novels, Louis L'Amour. Other series under consideration are based on the films "The Apple Dumpling Gang," "The Love Bug," "Witch Mountain" and "Pollyanna."

Also, two half-hour series pilots are in development—"Private Parties," about a family-owned catering hall, and "Small and Frye," a comedy about a private detective who is exposed to a meteor shower and shrinks to a height of six inches.

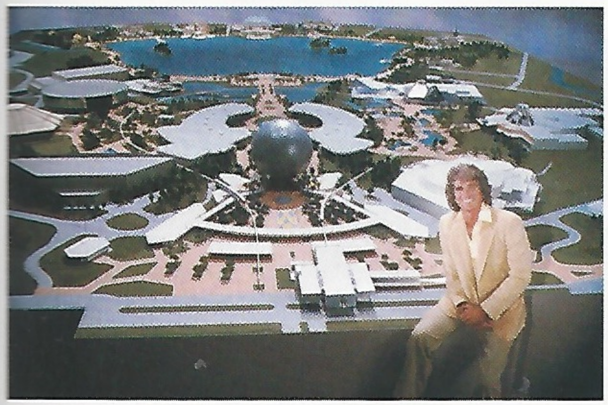
In addition, we are producing a one-hour children's special for CBS's "The Liveliest Arts" and a six-hour mini-series called "Fast Forward" which traces the development of a family 35 years into the future and makes maximum use of Epcot Center's projections on what life will be like then.

Worldwide film rentals, including television, increased by 8% to $174,575,000 for the year.

Foreign theatrical film rentals of $76,279,000 were the second best in the Company's history, down only 3% from the prior year's all-time record performance.

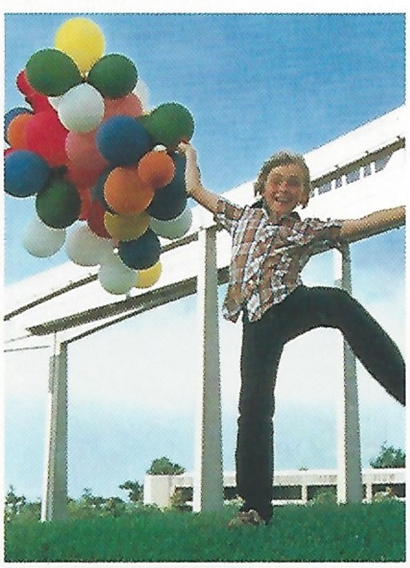
In all, worldwide television revenues increased 121% to $43,672,000 over the prior fiscal year, proving the success of the Company's television revitalization program.

"The Cherokee Trail," written for Disney by famed Western author Louis L'Amour, is another television pilot aired first on "Walt Disney." Produced by Doug Netter and directed by award-winner Keith Merrill, "The Cherokee Trail" stars Cindy Pickett, Tina Yother, Mary Larkin and Tommy Petersen.



"Walt Disney . . . One Man's Dream" kicked off the national television promotion of Epcot Center. With Michael Landon hosting, the CBS special featured Mac Davis, Marie Osmond, Carl Reiner, Dick Van Dyke, Ben Vereen and cameo appearances by a host of leading personalities. Producers were 16-time Emmy-winners Gary Smith and Dwight Hemion.

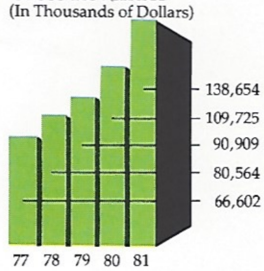
"Herbie the Lovebug" reunites the world's best-known Volkswagen with screen partner Dean Jones in this one-hour television series pilot. Produced by Kevin Corcoran and directed by Charles Dubin, the pilot also stars Patricia Harty, Richard Paul and Larry Linville.



"Kraft Salutes Walt Disney World's Tenth Anniversary" is a one-hour CBS television special also produced by Smith-Hemion. Stars of the extravaganza include Ricky Schroder, Eileen Brennan, Larry Gatlin, Dean Jones, Michele Lee, John Schneider and Dana Plato.

CONSUMER PRODUCTS

Gross Revenues
(In Thousands of Dollars)



The spectacular "World on Ice" show features all the popular Disney characters and is being readied for an overseas tour.

Consumer products continued to make gains during the year, posting solid increases in revenues.

Character Merchandising and Publications, Records and Music Publishing and the Telecommunications and Non-Theatrical divisions of the Company recorded an overall increase of 17% in gross revenues, up to $127,917,000 from $109,725,000.

Character merchandising rose to $30,555,000 from $29,631,000; publications to $24,658,000 from $22,284,000; Records and Music Publishing to $27,358,000 from $23,432,000 and Telecommunications and Non-Theatrical to $43,379,000 from $32,473,000.

Character merchandising benefited from a large array of "The Fox and the Hound" products and from the spectacular "World on Ice," the Disney ice show featuring Olympics champion Linda Fratianne. The show has played to extremely enthusiastic audiences in the United States, including setting a box office record at Madison Square Garden in New York City. It will continue through 1982, when it is scheduled for overseas tours and will be replaced by an all-new Disney show in the United States.

Even greater opportunities are expected from the opening of Epcot Center. Merchandise is already in production keyed to the uniqueness of the various pavilions of Future World and World Showcase. Plans are also well along for Tokyo Disneyland products.

Records and Music Publishing again defied the downward trend of the record industry, posting solid gains, in the domestic market.

A new line of Disney Picture Discs was introduced with such outstanding success that several new titles—notably "Cinderella," "Mary Poppins" and "The Jungle Book"—are planned for the current fiscal year.

In addition, through its worldwide licenses with Lucas-film, the record company will add "Raiders of the Lost Ark" to its series of seven-inch books and records and cassettes that already includes "Star Wars " and "The Empire Strikes Back."

Our publishing endeavors continued to expand, including the "Wonderful World of Reading Book Club" which now has 100 titles in print and worldwide sales of approximately two million books a month. Grolier has also introduced a 24-volume "Disney's My First Encyclopedia" set with projected initial North American sales of 100,000.

Retail book sales also increased, led by Western Publishing's two million units of 29 separate "The Fox and the Hound" items offered through some 20,000 special displays in retail outlets in the United States. Total monthly worldwide readership of Disney comics reached a new high of approximately 120 million.

The Telecommunications and Non-Theatrical Company's innovative video cassette sales/rental program scored impressively in its first full year of operation, with revenues topping the $10 million mark. Disney cassettes are now available in more than 4,000 retail stores across America.

A total of 31 feature films are now available to the home entertainment market with additional programming scheduled. Especially noteworthy was the introduction of "A Walt Disney Christmas," which promises to be a gift-giving perennial.

Additionally, license arrangements were concluded for the new

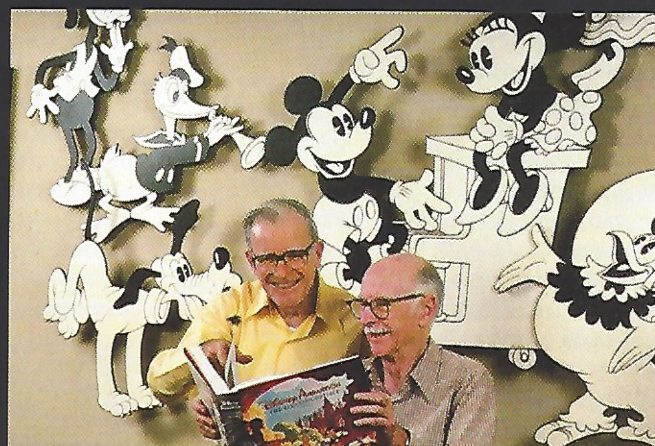
The 24-volume "Disney's My First Encyclopedia" has been introduced by Grolier with expected initial North American sales of more than 100,000 sets.

RCA videodisc player—Selectavision—and Disney motion pictures in this new format are a key part of RCA's introduction.

This fall we will launch our cassette business in Western Europe, Australia and South America on a rental-only basis. We expect even greater success in foreign markets where our films have consistently done well. Seventy-five percent of the video cassette players in the world are outside the United States and, with limited television programming in many countries, the prospects for Disney video are very promising.

The educational media division of the Telecommunications and Non-Theatrical Company also reported another record year, highlighted by the introduction of 19 new 16 mm films for schools, including two new fully animated films—"Winnie the Pooh Discovers the Seasons," and a film on the dangers of smoking, "Smoking - The Choice is Yours." Also introduced were 15 new filmstrip sets on subjects ranging from nutrition to guidance.

The 8 mm film activity continued its industry-wide decline, as the medium is gradually superseded by the increasing popularity of home video cassettes.



Disney veterans Frank Thomas, left, and Ollie Johnston examine advance copy of their book, "Disney Animation: The Illusion of Life," published by Abbeville.

Two new fully animated educational films were introduced, "Winnie the Pooh Discovers the Seasons," left, and "Smoking–The Choice Is Yours."

Financing Activities

The Company has developed financing strategies and various financing arrangements covering projected short term financing needs of the next two to three years. These strategies are designed to give the Company the flexibility it needs during a period of major development and historically high interest rates when cash and short term investments are being depleted.

Short term. The Company will maintain a bank line of credit to support its ability to complete major construction activities already in progress. The Company will consider the issuance of commercial paper for working capital when this can be accomplished at interest rates more favorable than bank financing.

The Company received credit ratings of A-1+ and P-1 for commercial paper from two of the major rating agencies in August 1981.

The Company currently has available an unsecured revolving line of credit of $200 million for general corporate purposes, which includes $150 million for support of commercial paper. The revolving line can be increased to $300 million at the option of the Company. There have been no borrowings under the line of credit during the year whereas $10 million in 60-day commercial paper was issued on September 24, 1981 (see Note 6 of Notes to Consolidated Financial Statements).

Intermediate term. The Company will also consider medium range debt as an additional means of financing growth opportunities. Such debt may be issued in the domestic public or private markets, or the European markets.

As a result of a successful Eurodollar Offering, the Company issued $100 million in 15¾% notes in September 1981 (see Note 6 of Notes to Consolidated Financial Statements). The notes may be redeemed on and after September 1, 1984 and mature on September 1, 1986. These notes represent the Company's first borrowings since 1975.

Financial Position

The Company's financial position continues to be strong as total assets now exceed $1.6 billion. The ratio of total capital to total assets has remained constant until the current year, when it moved from 80% to 72% due to the debt assumed during the latter part of the year.

	1981	Change	1980	Change	1979
Total assets	$1,610,009	+19%	$1,347,407	+13%	$1,196,424
Percent of stockholders equity to total assets	72%		80%		80%

The increase in total assets of 19% for 1981 is reflected predominantly in property, plant and equipment, further demonstrating management's plan to invest in assets that are intended to increase the productive capability of the Company for years to come.

Short term investments of $248.4 million at September 30, 1981 ($318.5 million-1980), which includes the proceeds of the Eurodollar Offering received in September 1981, consist primarily of Bankers Acceptances, negotiable Certificates of Deposit, commercial paper and various United States Government issues. They have an average maturity of 107 days and a weighted average yield at cost of 17.43% (10.39%-1980). These funds are being used to finance the Epcot Center project (see Note 2 of Notes to Consolidated Financial Statements).

ANALYSIS OF OPERATIONS

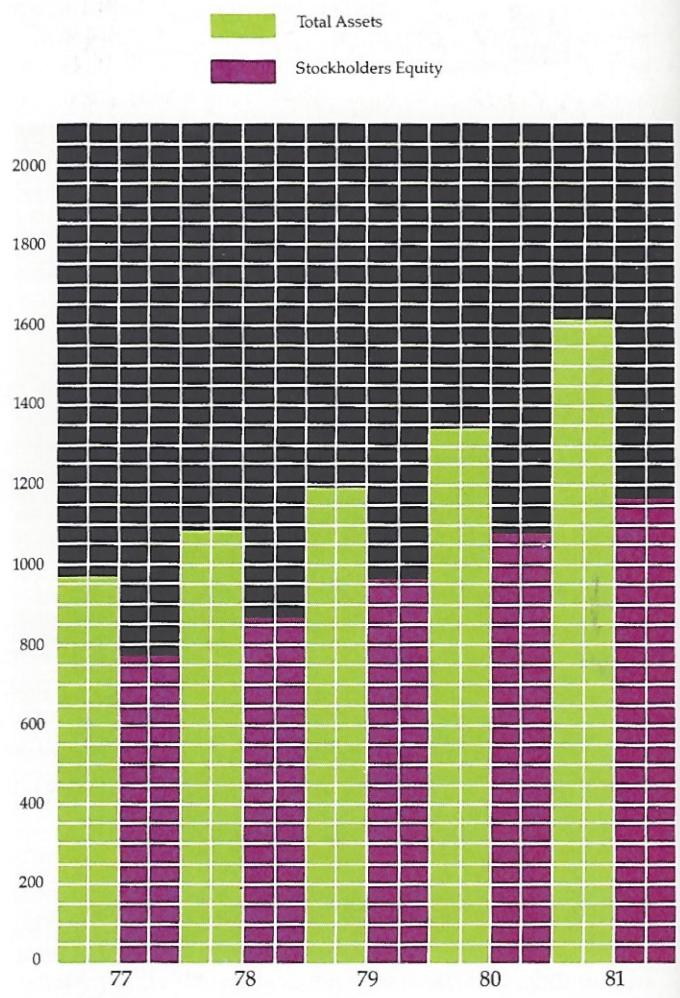
An analysis of the financial results for fiscal years 1981, 1980 and 1979 by business segment and corporate expense is presented below to assist the reader in an understanding and evaluation of the results of operations as reflected in the Consolidated Statement of Income (page 37).

Entertainment and Recreation

	1981	Change	1980	Change	1979
Revenues	$691,811	+8%	$643,380	+13%	$571,079
Operating income	129,474	+2%	127,532	+6%	120,644
Operating margin	19%		20%		21%
Theme park attendance	24,564	−2.9%	25,305	+3.1%	24,552

Revenues continue to increase due to higher theme park per capita guest spending of approximately 10% at both Disneyland and Walt Disney World, higher room rates and increased per capita guest spending at the

Total Assets and Stockholders Equity
(in millions of dollars)



resort hotels at Walt Disney World, and increased food and merchandise sales at the Walt Disney World Village. Theme park per capita guest spending was influenced by admission media price increases averaging 6-8% in April-May 1979, March-April 1980 and June 1981 at the two parks, and 7% in November 1980 at Walt Disney World. In addition, selective increases continue to be made in food and merchandise prices and lodging accommodation rates.

Operating income for the segment has grown at an average annual rate of 14% over the last five years. However, the rate of growth has been less in 1980 and 1981 and operating margins have also declined. Costs and expenses of operations are increasing due primarily to higher labor rates and labor hours paid. The average labor rate, which includes employee benefits, increased in 1981, 1980 and 1979 by 10.6%, 6.3% and 7.9% at Disneyland and by 16.1%, 9.2% and 9.8% at Walt Disney World. In addition, significant increases have been experienced in other expenses, including operating materials, outside services and utilities. The gross profit margins for food and merchandise have remained substantially unchanged for all three years. Effective October 1, 1980, the Company extended the estimated useful lives of certain theme park ride and attraction assets based upon historical data and engineering studies. The effect of this change was to decrease depreciation by approximately $8 million (an increase in net income of approximately $.13 per share).

While attendance was down slightly in 1981, Disneyland enjoyed its second best attendance in history and Walt Disney World surpassed the 13 million mark for the sixth consecutive year.

Motion Pictures

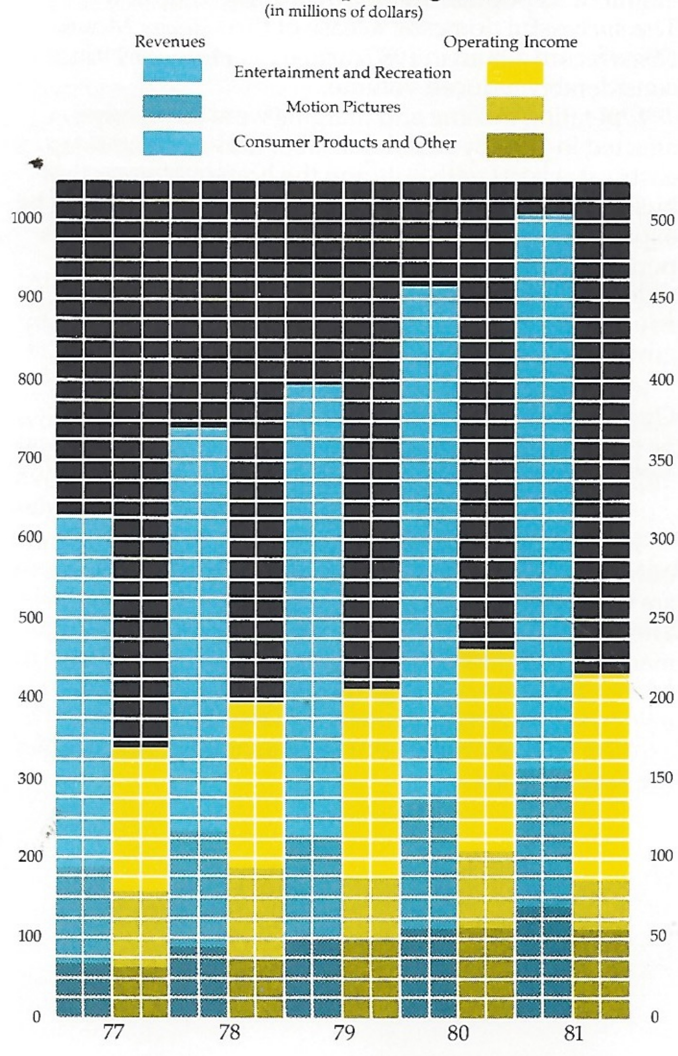
	1981	Change	1980	Change	1979
Revenues	$174,575	+8%	$161,400	+20%	$134,785
Operating income	30,497	−37%	48,675	+21%	40,229
Operating margin	17%		30%		30%

Motion picture production and distribution is a highly competitive business, wherein the public's response to a given motion picture can have a major impact on the success of that product and, hence, a significant impact on the Company's motion picture business for any particular year. The new live action releases of "The Devil and Max Devlin", "Amy", "Dragonslayer" (a co-production with Paramount Pictures) and "Condorman" during 1981 resulted in very disappointing film rentals in the domestic theatrical market. In contrast, "The Fox and the Hound", the Company's twentieth fully animated feature film, performed very well domestically and is expected to do even better in the foreign market. Foreign theatrical film rentals in 1981, led by the original release of "The Black Hole" and reissues of "The Aristocats" and "101 Dalmatians", almost reached the record foreign revenues set in 1980. Television rentals contributed significantly to higher revenues with the licensing of several features to pay television and two features to commercial television, demonstrating the continuing value of the Disney film library. Licensing agreements with pay television suppliers will expire in June 1982. The Company has recently announced that it will in the future dedicate its filmed product to a 16-hour-a-day pay cable programming service that the Company will operate with Westinghouse Broadcasting (Group W) in a joint venture, debuting in late 1982 or early 1983.

Operating income decreased significantly in 1981 due primarily to higher amortization of film negative costs and to write-downs, totaling $20.5 million, to their expected net realizable values of the four new live action releases referred to above. The higher amortization in 1981 is due to the higher film negative costs associated with "Popeye", "The Black Hole" and "The Fox and the Hound".

Operating margins have been adversely affected in 1981 due to the relatively low film rentals of the four new live action releases compared to the relatively high costs of production/amortization and distribution. Television rentals, in contrast, contributed a higher margin because of the relatively low cost of distribution and amortization associated with the films licensed to television during the year.

Revenues and Operating Income
(in millions of dollars)



Consumer Products and Other

	1981	Change	1980	Change	1979
Revenues	$138,654	+26%	$109,725	+21%	$90,909
Operating income	54,693	−1%	55,093	+23%	44,822
Operating margin	39%		50%		49%

The consumer products segment consists of the character merchandising and publications, the telecommunications and non-theatrical and the records and music publishing businesses. Also included in this segment in 1981 are the revenues of approximately $10 million and expenses related to the installation of the WEDway PeopleMover System at the Houston International Airport. There was a small profit on this project, which was accounted for on the completed contract method.

Revenues continue to increase in all businesses within the segment. Character merchandising and publication increases are predominately in the foreign territories as a result of an ongoing program of developing new product that is gradually introduced into new territories around the world. Home video disc and cassette domestic sales and rentals have contributed approximately $10.9 million in revenues to telecommunications and non-theatrical in the initial year of this growing market. Records and music publishing continues to develop new product to augment its popular standard line of records and music. The successful domestic release of the Mickey Mouse Disco record album in 1980 carried over into 1981 but at a considerably reduced volume.

Operating income and margins were adversely affected in 1981 by additional labor and other start-up costs associated with entering the home video cassette business in the domestic market in 1981 to be followed by expansion into the foreign market in 1982. During this period 8 millimeter filmed product is gradually being phased out in favor of home video product and educational media product sales have been impacted by government spending cutbacks.

General and Administrative Expense

	1981	Change	1980	Change	1979
Amount	$26,216	+24%	$21,130	+19%	$17,830
Percent of revenues	3%		2%		2%

In addition to normal increases in labor, materials and outside services, certain corporate functions and services are being expanded to meet the needs of the Company. The most significant increase is identified with the management information services division, which is adding new computer equipment and personnel in response to increased demands in the Company's existing businesses and in anticipation of the opening of the Epcot Center.

Design Projects Abandoned

	1981	Change	1980	Change	1979
Amount	$4,598	+7%	$4,294	+80%	$2,390

At the close of each fiscal quarter, management evaluates projects in the concept and design stages which have been in progress for varying periods of time. Those which are determined to have no future use are abandoned. A major portion of the design costs abandoned in 1981 and 1980 relate to the Epcot Center.

Interest Income—Net

	1981	Change	1980	Change	1979
Amount	$33,130	−21%	$42,110	+48%	$28,413

The Company has realized net interest income (after interest expense) from short term investments, such income being dependent upon fluctuations in interest rates and the amount of such investments. Interest income will continue to decrease as the funds currently invested are used to finance the Epcot Center project. (See discussion under Financial Position on page 32 and Note 2 of Notes to Consolidated Financial Statements.) Interest expense amounted to $1,749,000, $746,000 and $27,000 for fiscal years 1981, 1980 and 1979, respectively. Commencing with fiscal year 1982, the Company plans to capitalize interest expense as part of the cost of construction projects and motion picture films. The amount to be capitalized will be dependent upon the extent of borrowings and the associated rates of interest incurred.

Taxes on Income

	1981	Change	1980	Change	1979
Amount	$95,500	−15%	$112,800	+13%	$100,100
Percent of income before taxes on income	44.0%		45.5%		46.8%

An explanation of the provision for taxes on income for 1981, 1980 and 1979 is given in Note 3 of Notes to Consolidated Financial Statements.

SUPPLEMENTARY INFORMATION REGARDING INFLATION AND CHANGING PRICES

General Background

Inflation has become a subject of increasing significance in the U.S. economy during the past decade. During periods of continuing inflation the purchasing power of the dollar is eroded, meaning that it requires more dollars to purchase the same goods and services.

The primary financial statements traditionally reflect the historic cost rather than the current cost of assets required to maintain an enterprise's productive capability. Transactions are recorded in terms of the number of dollars actually received or expended without regard to changes in the purchasing power of the currency or changes in the cost of goods and services consumed.

There is no universally accepted method for measuring the effect of inflation in financial statements. In recognition of the need, however, to provide readers of financial statements with information to assist them in assessing that impact, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices" (SFAS 33). The general objectives of reporting the effects of changing prices as expressed in SFAS 33 are to help users assess (a) future cash flows, (b) the maintenance of operating capability, (c) financial performance, and (d) the maintenance of general purchasing power.

The Statement prescribes two supplementary income computations. One deals with the effects of general inflation (constant dollars) and the other deals with the effects of changes in the specific prices of the resources actually used in the operations of the enterprise (current cost).

Under the "constant dollar" method, historical cost financial information is adjusted only for changes that have occurred in the general purchasing power of the dollar as measured by the Consumer Price Index for all Urban Consumers (CPI-U).

Under the "current cost" method, historical cost financial information is adjusted for changes in specific prices. Changes in specific prices may be due in part to changes in general purchasing power and in part to other market factors (such as technological improvements, variations in supply and demand for skills and commodities and shifts in consumer tastes). As a result, specific productive assets are measured at the current costs of replacement rather than at the historic costs originally incurred to acquire them. Current cost measurement techniques used by the Company include direct pricing, application of specific indexes, and functional and unit pricing.

Constant dollar and current cost adjustments for the current fiscal year are as follows:

SUPPLEMENTARY STATEMENT OF CONSOLIDATED INCOME ADJUSTED FOR CHANGING PRICES
For The Year Ended September 30, 1981
(In thousands of dollars, except per share data)

	As Included In Primary Financial Statements (Historical Cost)	As Adjusted For General Inflation (Constant Dollar)	As Adjusted For Changes In Specific Prices (Current Cost)
Revenues	$1,005,040	$1,005,040	$1,005,040
Costs and expenses:			
Cost of goods sold	163,215	168,000	167,000
Depreciation	38,886	67,900	70,800
Amortization	55,222	60,600	60,600
Other expenses	563,867	563,867	563,867
Interest income–net	(33,130)	(33,130)	(33,130)
Taxes on income	95,500	95,500	95,500
Total costs and expenses	883,560	922,737	924,637
Net income	$ 121,480	$ 82,303	$ 80,403
Earnings per share	$3.72	$2.52	$2.46
Gain from decline in purchasing power of net amounts owed		$ 4,000	$ 4,000
Increase in specific prices (current cost) of inventories; film production costs; and property, plant and equipment*			$ 106,000
Effects of increase in general inflation			161,000
Excess of increase in the general price level over increase in specific prices			$ 55,000

*At September 30, 1981 the current cost of inventories was $61,000, film production costs net of amortization was $132,000, and property plant and equipment net of accumulated depreciation was $1,640,000.

Net assets at year end are increased by $533 million when the cost of inventories, film production costs and the cost of property, plant and equipment are adjusted to average 1981 dollars (constant dollar) and by $583 million when adjusted to specific prices (current cost). This increase in the valuation of assets results in an increase in depreciation expense of $29 million (constant dollar) and $32 million (current cost). This adjustment of depreciation expense is the primary cause of the decrease in net income adjusted for the effects of inflation. In computing the above amounts, normal service lives and depreciation/amortization rates have been applied to the adjusted amounts. No adjustments are made to fully

adjusted amounts. No adjustments are made to fully depreciated assets currently utilized in the Company's business. Revenues and all other expenses are considered to reflect the average price levels for the year and accordingly have not been adjusted.

Net monetary assets represent cash or claims to cash less amounts owed. When prices are increasing, the holding of monetary assets results in a loss in general purchasing power. Similarly, amounts owed produce a gain in general purchasing power because the amount of money required to settle the liabilities represents dollars of diminishing purchasing power. At September 30, 1981, the excess of monetary liabilities over monetary assets resulted in a net gain in purchasing power. This gain is presented as supplementary information and has not been included in the Consolidated Statement of Income Adjusted For Changing Prices.

Construction costs generally rose at a rate less than the CPI-U during the year. Because the Company incurred significant construction costs during the year, increases in specific prices of property, plant and equipment and construction in progress were less than the increase in the general price level.

As required by SFAS 33, certain selected financial data are restated based on the average CPI-U for the year for each of the five years shown. Certain 1980 figures have been adjusted from amounts originally reported to reflect refinements in the development of inflation accounting data. The amounts as expressed in average 1981 dollars are as follows:

FIVE YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES
In Average 1981 Dollars
(In thousands of dollars, except for per share data)

	Year Ended September 30				
	1981	1980	1979	1978	1977
Revenues					
Constant dollars	$1,005,040	$1,016,000	$1,005,000	$994,000	$938,000
Net Income					
Constant dollars	$ 82,303	$ 108,000			
Current cost	80,403	103,000			
Earnings per share					
Constant dollars	$2.52	$3.32			
Current cost	2.46	3.18			
Net assets at year end					
Constant dollars	$1,700,000	$1,680,000			
Current cost	1,680,000	1,700,000			
Cash dividends per common share					
Constant dollars	$1.00	$ .80	$ .61	$ .45	$ .22
Market price per common share at year end					
Constant dollars	$46.75	$52.48	$50.78	$59.31	$58.84
Gain (loss) from decline in purchasing power of net amounts owed (monetary assets)	$ 4,000	$ (22,000)			
Average consumer price index	266	240	211	191	179

Management's Comments and Conclusions

Inflation accounting as required by SFAS 33 involves the use of numerous assumptions, approximations, and estimates, and should be viewed in that context and not as a precise indicator of the effects of inflation. The reader is cautioned not to attach too much significance to any one year's adjusted results. Even when several years are viewed consecutively, the information is considered to be of limited use until the reader completely understands the principles and concepts utilized in compiling the data.

The current cost of goods sold represents estimated costs at the time of sale rather than at the time of purchase. The relatively minor difference between cost of goods sold reported on an historical cost basis and that reported for current cost indicates that the Company's use of the moving average basis of accounting for the cost of its inventories results in cost of goods sold that generally approximates current cost.

As noted above, depreciation adjusted for inflation is significantly higher than the depreciation reported in the primary financial statements. However, this additional theoretical depreciation should not be interpreted as an indication of a decline in the Company's ability to maintain its productive capability. As a result of carefully planned and comprehensive refurbishing programs at its entertainment facilities, the productive capability is continuously renewed. The Company is not confronted with a problem of replacing very old and worn-out capital assets.

The cost of the Company's land, as included in net assets at year end under both the constant dollar and current cost measurement techniques, has been adjusted for changes in the CPI-U. The Company considers no other measure or index more appropriate to determine current cost of the service potential of its land.

In issuing SFAS 46, "Financial Reporting and Changing Prices: Motion Picture Films," the Financial Accounting Standards Board has recognized that current cost measures are not appropriate for motion picture films. As a result, amortization of film negative costs has been adjusted for changes in the CPI-U under both the constant dollar and current cost measures of inflation.

In accordance with SFAS 33, no adjustment has been made to the provision for income taxes included in the supplementary statement of income. The effective tax rate for 1981 rises from 44.0% on a historical cost basis to 53.7% on a constant dollar basis and 54.3% on the current cost basis. This information highlights the fact that inflation does erode real earnings growth and that effective tax burdens are often greater than the statutory rate, thus reducing funds available for increasing capacity and stimulating productivity.

CONSOLIDATED STATEMENT OF INCOME

(Dollar amounts in thousands, except per share data)	Year Ended September 30 1981	1980	1979
Revenues			
Entertainment and recreation	**$ 691,811**	$643,380	$571,079
Motion pictures	**174,575**	161,400	134,785
Consumer products and other	**138,654**	109,725	90,909
Total revenues	**1,005,040**	914,505	796,773
Costs and Expenses of Operations			
Entertainment and recreation	**562,337**	515,848	450,435
Motion pictures	**144,078**	112,725	94,556
Consumer products and other	**83,961**	54,632	46,087
Total costs and expenses of operations	**790,376**	683,205	591,078
Operating Income Before Corporate Expenses			
Entertainment and recreation	**129,474**	127,532	120,644
Motion pictures	**30,497**	48,675	40,229
Consumer products and other	**54,693**	55,093	44,822
Total operating income before corporate expenses	**214,664**	231,300	205,695
Corporate Expenses (Income)			
General and administrative	**26,216**	21,130	17,830
Design projects abandoned	**4,598**	4,294	2,390
Interest income—net	**(33,130)**	(42,110)	(28,413)
Total corporate expenses (income)	**(2,316)**	(16,686)	(8,193)
Income Before Taxes on Income	**216,980**	247,986	213,888
Taxes on income (note 3)	**95,500**	112,800	100,100
Net Income	**$ 121,480**	$135,186	$113,788
Earnings per Share	**$3.72**	$4.16	$3.51

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1981	1980	1979
Balance at beginning of the year	**$ 537,109**	$425,203	$326,911
Net income for the year	**121,480**	135,186	113,788
Dividends—Cash ($1.00, $.72 and $.48 per share)	**(32,406)**	(23,280)	(15,496)
Balance at end of the year	**$ 626,183**	$537,109	$425,203

See notes to consolidated financial statements and summary of significant accounting policies.

CONSOLIDATED BALANCE SHEET

(Dollar amounts in thousands)	September 30 1981	1980
ASSETS		
Current Assets		
Cash	**$ 5,869**	$ 9,745
Short term investments, at cost which approximates market (note 2)	**248,408**	318,533
Accounts receivable, net of allowances	**69,302**	50,711
Inventories	**59,773**	54,648
Film production costs (note 1)	**59,079**	61,127
Prepaid expenses	**15,398**	11,438
Total current assets	**457,829**	506,202
Film Production Costs—Non-Current (note 1)	**61,561**	59,281
Property, Plant and Equipment, at cost		
Entertainment attractions, buildings and equipment	**968,223**	935,152
Less accumulated depreciation	**(384,535)**	(352,051)
	583,688	583,101
Construction and design projects in progress		
Epcot Center (note 2)	**439,858**	141,373
Other	**29,404**	21,658
Land	**16,419**	16,414
	1,069,369	762,546
Other Assets (note 4)	**21,250**	19,378
	$1,610,009	$1,347,407
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable, payroll and other accrued liabilities (note 7)	**$ 158,516**	$ 109,047
Taxes on income (note 3)	**33,057**	36,244
Total current liabilities	**191,573**	145,291
Long Term Liabilities and Non-Current Advances (notes 2, 4 and 6)	**161,886**	30,429
Deferred Taxes on Income and Investment Credits (note 3)	**89,432**	96,889
Commitments and Contingencies (note 8)		
Stockholders Equity (note 4)		
Preferred shares, no par		
Authorized—5,000,000 shares, none issued		
Common shares, no par		
Authorized—75,000,000 shares		
Issued and outstanding—32,433,360 and 32,354,319 shares	**540,935**	537,689
Retained earnings	**626,183**	537,109
	1,167,118	1,074,798
	$1,610,009	$1,347,407

See notes to consolidated financial statements and summary of significant accounting policies.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In thousands of dollars)	Year Ended September 30 1981	1980*	1979*
Cash provided by operations before taxes on income (see below)	**$316,949**	$326,504	$286,256
Taxes paid on income	**106,144**	121,822	103,399
Cash provided by operations	**210,805**	204,682	182,857
Cash dividends	**32,406**	23,280	15,496
	178,399	181,402	167,361
Investing activities			
Epcot Center, net of related payables	**285,651**	102,529	16,666
Other property, plant and equipment	**47,756**	47,145	39,963
Film production costs	**55,454**	68,409	44,436
Other	**5,930**	1,619	6,218
	394,791	219,702	107,283
	(216,392)	(38,300)	60,078
Financing activities			
Short and long term debt	**110,000**		
Participation fees	**24,745**	10,361	6,245
Other	**7,646**	1,327	968
	142,391	11,688	7,213
Increase (decrease) in cash and short term investments	**(74,001)**	(26,612)	67,291
Cash and short term investments, beginning of year	**328,278**	354,890	287,599
Cash and short term investments, end of year	**$254,277**	$328,278	$354,890

The difference between income before taxes on income as shown on the Consolidated Statement of Income and cash provided by operations before taxes on income is explained as follows:

	1981	1980*	1979*
Income before taxes on income	$216,980	$247,986	$213,888
Charges to income not requiring cash outlays:			
Depreciation	38,886	43,093	40,439
Amortization of film production costs	55,222	33,889	31,823
Other	9,449	6,530	4,151
Changes in:			
Accounts receivable, net of allowances	(18,591)	(13,589)	(10,414)
Inventories	(5,125)	(12,774)	(2,470)
Prepaid expenses	(3,960)	(2,461)	(693)
Accounts payable, payroll and other accrued liabilities	24,088	23,830	9,532
	99,969	78,518	72,368
Cash provided by operations before taxes on income	$316,949	$326,504	$286,256

*Restated to conform with 1981 format.

See notes to consolidated financial statements and summary of significant accounting policies.

DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

WALT DISNEY PRODUCTIONS is a diversified international company engaged in family entertainment and operates in three business segments:

Entertainment and Recreation
The Company operates an amusement theme park, "Disneyland", in California and wholly owned subsidiaries operate a destination resort, "Walt Disney World", in Florida. In addition to an amusement theme park, the Walt Disney World complex includes three hotels, camping, golfing and other recreational facilities, a shopping village, a conference center and other lodging accommodations.

Motion Pictures
The Company produces motion pictures for theatrical and television distribution. The Company distributes its filmed product through its own distribution company in the United States and through foreign subsidiaries in certain countries and independent distribution companies throughout the rest of the world.

Consumer Products and Other
The Company licenses the name Walt Disney, its characters, its literary properties and its songs and music to various manufacturers, retailers, printers and publishers. The Company also produces and distributes phonograph records, 8 millimeter prints of excerpts from its film library, video cassettes and 16 millimeter prints of product taken from the film library or developed on educational subjects, and a broad range of teaching aids. These activities are conducted through the character merchandising, publications, records and music publishing, and telecommunications and non-theatrical divisions and subsidiaries of the Company.

The following summary of the Company's significant accounting policies is presented as an integral part of the financial statements.

PRINCIPLES OF CONSOLIDATION
The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries, all wholly owned.

REVENUE RECOGNITION
Generally, revenue is recorded when the earning process is substantially complete and goods have been delivered or services performed. Revenue from entertainment and recreation activities is received principally in cash; revenue from participant/sponsors at the theme parks (which will include the Epcot Center) is recorded over the period of the applicable agreements commencing with the opening of the attraction. Revenue from the theatrical distribution of motion pictures is recognized when motion pictures are exhibited domestically and when revenues are reported from foreign distributors; revenue from television licensing agreements is generally recorded when the film is contractually available to the licensee and certain other conditions are met.

FILM PRODUCTION COSTS AND AMORTIZATION
Costs of completed theatrical and television film productions (negative costs), together with applicable capitalized exploitation costs, are amortized by charges to income in the proportion that gross revenue recognized by the Company during the year for each production bears to the estimated total gross revenue to be received. Estimates of total gross revenue are reviewed periodically and amortization is adjusted accordingly. If unamortized cost exceeds the estimated producers share of film rentals to be received, the carrying value of the film is adjusted to expected net realizable value.

INVENTORIES
Costs of merchandise, materials and supplies inventories are generally determined on the moving average basis and the retail method and are stated at the lower of cost or market.

PROPERTY, PLANT AND EQUIPMENT
The Company, at any one point in time, will have a number of projects in the concept, design, or construction phases related to entertainment attractions, buildings and equipment. All projects in progress are evaluated on a continuing basis and, upon completion, costs of major replacements and betterments are capitalized. If it is determined that a project in progress has no future use, the costs of such project are charged to income under the caption "Design Projects Abandoned".

Depreciation is provided principally on the straight line method using estimated service lives ranging from four to fifty years.

TAXES ON INCOME
Taxes are provided on all revenue and expense items included in the consolidated statement of income, regardless of the period in which such items are recognized for income tax purposes, except for items representing a permanent difference between pretax accounting income and taxable income. Investment tax credits, accounted for by the deferral method, are amortized as a reduction of the provision for taxes on income over the average service lives of the related assets.

STOCK OPTIONS
Proceeds from the sale of common stock issued under stock option plans are accounted for as capital transactions. If stock appreciation rights (SAR's) are granted in connection with options granted, income is charged or credited over the vesting period for the difference between the market price of the Company's stock and the option price of the appreciation rights outstanding.

EARNINGS PER SHARE
Earnings per common and common equivalent share are computed on the basis of the average number of shares outstanding during each year, retroactively adjusted to give effect to all stock splits and stock dividends. It is assumed that all dilutive stock options are exercised at the beginning of each year and that the proceeds are used to purchase shares of the Company's common stock at the average market price during the year.

1. Film Production Costs:

Theatrical and television film production costs consist of the following components (in thousands of dollars):

	1981	1980
Released, less amortization	**$ 54,100**	$ 46,337
Completed, not yet released	**21,562**	30,016
In process	**44,978**	44,055
	120,640	120,408
Less: Non-current film production costs	**61,561**	59,281
Current film production costs	**$ 59,079**	$ 61,127

Non-current film production costs include costs of theatrical and television films in process of production, portions of completed theatrical film costs allocated to television and portions of completed television film costs allocated to foreign markets.

2. Epcot Center Project:

On October 1, 1979, the Company began construction of the Epcot Center at Walt Disney World, a complex involving two major themed areas, Future World and World Showcase. The official opening will be on October 1, 1982 and the cost of those facilities that are planned to be completed and operational at that date is estimated to be approximately $800 million. Additional attractions and exhibits, estimated at $150 million, are planned for completion after the October 1982 opening. These amounts do not include certain interest expense which will be capitalized, or preopening costs estimated at $30 million which will be deferred and amortized over five years.

WED Enterprises, the Company's design division, is responsible for the engineering, master planning and imagineering for the Epcot Center. The Company has entered into agreements totaling approximately $500 million (of which approximately $270 million has been paid at September 30, 1981) for construction management services, construction contracts and architectural/engineering services.

It is contemplated that the proceeds from short term investments held by the Company, which include the funds obtained from a Eurodollar offering, will be used to fund the project, together with cash provided by future operations, payments from corporate participants in the project and, depending upon capital market conditions, other sources of debt financing and drawings under the Company's revolving line of credit. (See Note 6.) In accordance with the current corporate participation agreements, the Company expects to receive approximately $300 million in total participation fees and $70 million prior to opening day ($41.3 million has been received as of September 30, 1981 and is included in Long Term Liabilities and Non-Current Advances).

3. Taxes on Income (in thousands of dollars):

The income before provision and the provision for taxes on income is composed of the following:

	1981	1980	1979
Income before provision for taxes on income			
—United States	**$212,885**	$243,449	$209,531
—Foreign	**4,095**	4,537	4,357
Total income before provision for taxes on income	**$216,980**	$247,986	$213,888
Currently payable			
—Federal	**$ 81,157**	$ 97,352	$ 88,275
—State	**10,058**	11,668	10,280
—Foreign	**6,717**	5,454	4,935
Total currently payable	**97,932**	114,474	103,490
Deferred			
—Federal	**2,526**	4,194	790
—State	**(458)**	(668)	(280)
—Investment credits amortized	**(4,500)**	(5,200)	(3,900)
Total deferred	**(2,432)**	(1,674)	(3,390)
Total provision for taxes on income	**$ 95,500**	$112,800	$100,100

The significant components of deferred taxes on income included in the provision for taxes on income are as follows:

	1981	1980	1979
Excess of tax over book depreciation	**$ 6,590**	$ 2,230	$ 3,650
Epcot participation fees included in taxable income	**(11,920)**	(5,020)	(2,690)
Other	**2,898**	1,116	(4,350)
Total provision for deferred taxes on income	**$(2,432)**	$(1,674)	$(3,390)

The difference between the U.S. federal income tax rate and the Company's effective income tax rate is explained below:

	1981	1980	1979
Federal income tax rate	**46.0%**	46.0%	46.5%
State income taxes, net of federal income tax benefit	**2.4**	2.4	2.5
Reduction in taxes resulting from:			
Investment tax credits	**(2.1)**	(2.1)	(1.8)
Other	**(2.3)**	(.8)	(.4)
Effective income tax rate	**44.0%**	45.5%	46.8%

Net deferred taxes of $9,869 at September 30, 1981 ($4,845—1980) are included in taxes on income shown under current liabilities on the balance sheet.

Deferred investment tax credits amount to $19,370 at September 30, 1981 ($18,675—1980).

4. Employee Benefits:

Pension and Deferred Compensation Plans

The Company contributes to various domestic trusteed pension plans under union and industry-wide agreements. Contributions are based on the hours worked by or gross wages paid to covered employees.

The Company has pension plans covering substantially all of its domestic employees not covered by union or industry pension plans. The plans are funded by Company and employee payments to a trust administered by a bank. In prior years, the Company prepaid the actuarially computed past service liability of the plans determined as of June 30, 1978, and the unamortized prepaid amount totaling $2,402,000 at September 30, 1981, is deferred and classified in other assets and is being amortized over periods ranging to 8 more years.

A comparison of accumulated plan benefits for the defined benefit plans with net assets available for benefits as of June 30, 1981, the date of the latest actuarial valuation, is as follows (in thousands of dollars):

Actuarial present value of accumulated plan benefits:	
Vested	$23,705
Nonvested	5,363
Total	$29,068
Net assets available for benefits	$41,569

The rate of return used in determining the actuarial present value of accumulated plan benefits is 8½%, based on Pension Benefit Guaranty Corporation (PBGC) interest assumptions as of June 30, 1981.

The Company also has a non-qualified and unfunded key employee retirement plan providing for Company and domestic employee contributions. The amount accrued as a long term liability under this plan was $13,999,000 at September 30, 1981 ($11,177,000—1980); the actuarially computed unrecorded past service liability at the date of the latest determination was approximately $7,500,000.

The aggregate amounts expensed for all of these plans was $7,598,000, $7,146,000 and $5,822,000 for fiscal years 1981, 1980 and 1979, respectively, including amortization of actuarially computed prior service costs, where applicable, over periods ranging to thirty-two more years.

Stock Option Plans

Stock options are granted to key executive, management and creative personnel at prices equal to market price at date of grant. The options and prices set forth below have been adjusted, where applicable, for all subsequent stock splits and stock dividends.

Transactions under the 1967, 1973 and 1980 Plans during fiscal year 1981 were as follows:

	Number of Shares	
	Options Granted	Available For Grant
Outstanding September 30, 1980 ($20.77 to $43.52 per share)	570,982	623,908
Options terminated	(21,190)	21,188
Options granted	575,000	(575,000)
Options exercised	(79,041)	
SAR's exercised	(20,458)	
Outstanding September 30, 1981 ($20.77 to $64.31 per share)	1,025,293*	70,096

*Includes 297,331 options with SAR's.

Options are exercisable beginning not less than one year after date of grant. Options which were originally granted as qualified options expire five years after date of grant and those granted as non-qualified options expire ten years after date of grant. At September 30, 1981, options on 3,659 shares granted under the 1967 Plan were exercisable at $43.52 per share; options on 372,270 shares granted under the 1973 Plan were exercisable at $20.77 to $40.81 per share; and none of the options granted under the 1980 Plan had become exercisable.

Under the Company's 1967 and 1973 Stock Option Plans, $2,268,000 was received in fiscal year 1981 ($1,240,000—1980) and credited to stockholders equity for 79,041 and 54,888 shares which were issued on the exercise of options in fiscal years 1981 and 1980, respectively. Income tax benefit from purchase of option shares by employees of $978,000 was credited to stockholders equity in fiscal year 1981 ($590,000—1980).

The 1980 Stock Option Plan permits the granting of stock appreciation rights in connection with any option granted under this plan or under the 1973 Stock Option Plan. In lieu of exercising a stock option, SAR holders are entitled, upon exercise of an SAR, to receive cash or common shares or a combination thereof in an amount equal to the excess of the fair market value of such shares on the date of exercise over the option price.

As of September 30, 1981, stock appreciation rights were outstanding with respect to 297,331 shares subject to options under the 1973 and 1980 Stock Option Plans. These stock appreciation rights were granted to a limited number of key employees. Income and overhead accounts were charged with $552,000 during fiscal year 1981 ($2,188,000—1980) in respect to SAR's.

In February 1981 the stockholders approved a new Incentive Plan to provide for incentives and awards to key employees under which 797,310 common shares remain reserved for issuance at September 30, 1981.

Employee Stock Ownership Plan for Salaried Employees

The Company also has an Employee Stock Ownership Plan (ESOP) for salaried employees. Under the Plan, the Company has claimed an additional 1% of the Company's qualified capital investments as an investment tax credit and paid such an amount to a trust which then purchases shares of the Company's stock in the open market for the employees' benefit. Relating to fiscal 1980 and 1979, respectively, $706,800 and $445,600 have been used to purchase 11,682 and 9,234 shares of stock. The Company may claim a further tax credit equal to an additional ½% of the Company's qualified capital investments if this amount is used to match employee contributions. Commencing with fiscal 1980, the matching employer contribution used to purchase 10,994 shares of common stock was $334,300.

5. Business Segments (in thousands of dollars):

The Company operates in three business segments: Entertainment and Recreation, Motion Pictures and Consumer Products and Other. These business segments are described in the Summary of Significant Accounting Policies on page 40 of this report.

The Consolidated Statement of Income presents the revenue and operating income by business segment. Additional financial information relative to business segments follows.

Total revenues of $1,005,040 ($914,505—1980 and $796,773—1979) include foreign revenues (export sales) related to the following geographic areas:

	1981	1980	1979
Europe	**$ 84,932**	$ 95,749	$ 71,628
Western Hemisphere (excluding the United States)	**26,014**	24,413	19,947
Other	**24,189**	13,701	13,289
	$135,135	$133,863	$104,864

Capital expenditures by business segment were:

	1981	1980	1979
Entertainment and recreation	**$344,361**	$157,834	$ 54,804
Motion pictures	**4,040**	2,020	1,541
Consumer products and other	**277**	140	42
Corporate	**110**	306	242
	$348,788	$160,300	$ 56,629

Depreciation expense by business segment was:

	1981	1980	1979
Entertainment and recreation	**$ 37,338**	$ 41,780	$ 39,053
Motion pictures	**1,200**	921	805
Consumer products and other	**155**	199	411
Corporate	**193**	193	170
	$ 38,886	$ 43,093	$ 40,439

Effective October 1, 1980, the Company extended the estimated useful lives of certain theme park ride and attraction assets based upon historical data and engineering studies. The effect of this change was to decrease depreciation by approximately $8 million (an increase in net income of approximately $4.2 million, or $.13 per share).

Amortization expense of film production costs (classified under Motion Pictures) was $55,222, $33,889 and $31,823 for fiscal years 1981, 1980 and 1979, respectively. Included in 1981 are write-downs totaling $20.5 million of four new live action releases to their expected net realizable values ($9.5 million—1980).

Identifiable assets by business segment were:

	1981	1980	1979
Entertainment and recreation	**$1,141,657**	$ 825,364	$ 684,856
Motion pictures	**157,106**	154,135	113,269
Consumer products and other	**39,239**	30,265	23,221
Corporate	**272,007**	337,643	375,078
	$1,610,009	$1,347,407	$1,196,424

Corporate assets are principally cash and short term investments.

6. Indebtedness:

Short Term

The Company issued commercial paper on September 24, 1981, totaling $10 million, which is included under current liabilities. The notes with interest at 14.85% to 15.05% are due on November 23, 1981.

Long Term

The Company issued 15¾% notes as of September 1, 1981, totaling $100 million as a result of a Eurodollar offering. The notes will mature on September 1, 1986, and are not redeemable before September 1, 1984. Interest on the notes is payable annually.

In addition, two unsecured notes were issued on August 5, 1981, totaling $5.1 million, as a result of the acquisition of a building at Lake Buena Vista, Florida. The notes with interest at 14.45% and 15.50% are due in five years but may be prepaid.

Line of Credit

The Company has available through September 1984 an unsecured revolving line of credit of $200 million generally at the prime rate for general corporate purposes. The revolving line can be increased to $300 million at the option of the Company. Under the line of credit, the Company is required to pay a fee on the unused portion of the commitment and to maintain certain compensating balances. There were no borrowings under the line of credit at September 30, 1981. Up to $150 million of the line of credit is available to support commercial paper, against which $10 million had been issued at September 30, 1981.

7. Current Liabilities:

Accounts payable, payroll and other accrued liabilities at September 30 are as follows (in thousands of dollars):

	1981	1980
Commercial paper (note 6)	$ 10,000	
Accounts payable—trade	52,965	$ 40,011
Accounts payable—construction contracts	26,007	10,626
Payroll and employee benefits	34,597	30,338
Unearned deposits and advances	17,952	15,025
Cash dividends payable	8,108	5,824
Property, payroll and other taxes	8,887	7,223
	$158,516	$109,047

8. Commitments and Contingencies (in thousands of dollars):

Pursuant to an agreement for the use of the name of Walt Disney, Retlaw Enterprises, Inc. (a company owned by the family of the late Walter E. Disney) earned royalties of approximately $6,886, $7,107 and $6,557 from the Company for fiscal years 1981, 1980 and 1979, respectively; in accordance with such name agreement, the amount in 1981 included $3,800 ($3,550—1980 and $3,505—1979) as a participation by Retlaw of 5% in the profits, as defined in that agreement, of certain Walt Disney World operations.

The Company has entered into an agreement with the stockholders of Retlaw upon the consummation of which the Company would in effect acquire all of Retlaw's rights to the name, likeness and portrait of Walt Disney and the narrow-gauge steam railroad and monorail systems at Disneyland. The agreement provides for a purchase price to be paid by the Company to the stockholders of Retlaw of $46.2 million, payable in shares of common stock of the Company. Consummation of the agreement is subject to approval by the stockholders of the Company and certain other conditions.

The Company's subsidiary, Buena Vista Distribution Co., Inc., is a defendant with other motion picture distributors in a number of private treble damage actions asserting claims under the federal anti-trust laws. These actions, which seek damages aggregating hundreds of millions of dollars, are in various stages of pre-trial proceedings. The Company has denied the material allegations of the complaints in these actions, and in the opinion of management and counsel, the Company will not suffer any material liability by reason thereof.

Report of Independent Accountants

Price Waterhouse

1880 CENTURY PARK EAST
WEST LOS ANGELES, CALIFORNIA 90067

November 23, 1981

To the Board of Directors and Stockholders
of Walt Disney Productions

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, retained earnings and changes in financial position present fairly the financial position of Walt Disney Productions and its subsidiaries at September 30, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended September 30, 1981, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Walt Disney Productions and Subsidiaries

SELECTED FINANCIAL DATA 1977-1981

(Dollar amounts and shares in thousands, except per share data)	**1981**	1980	1979	1978	1977
Statement of Income Data					
Revenues (Page 46)	**$1,005,040**	$ 914,505	$ 796,773	$ 741,143	$629,825
Operating income before corporate expenses	**214,664**	231,300	205,695	197,540	169,500
Corporate expenses	**30,814**	25,424	20,220	20,523	18,494
Interest income—net	**(33,130)**	(42,110)	(28,413)	(12,468)	(6,341)
Taxes on income	**95,500**	112,800	100,100	91,100	75,400
Net income	**121,480**	135,186	113,788	98,385	81,947
Balance Sheet Data					
Current assets	**$ 457,829**	$ 506,202	$ 484,141	$ 394,448	$289,894
Property, plant and equipment—net of depreciation	**1,069,369**	762,546	648,447	633,885	629,940
Total assets	**1,610,009**	1,347,407	1,196,424	1,083,141	964,475
Current liabilities	**191,573**	145,291	119,768	113,674	86,448
Long term obligations	**161,886**	30,429	18,616	11,393	10,781
Total liabilities and deferred credits	**442,891**	272,609	235,362	221,906	193,269
Total net assets (stockholders equity)	**1,167,118**	1,074,798	961,062	861,235	771,206
Statement of Changes in Financial Position Data					
Cash provided by operations	**$ 210,805**	$ 204,682	$ 182,857	$ 201,905	$153,116
Cash dividends	**32,406**	23,280	15,496	10,273	4,725
Investment in property, plant and equipment	**333,407**	149,674	56,629	45,367	44,517
Investment in film production	**55,454**	68,409	44,436	32,716	34,699
Per Share Data					
Net income (earnings)	**$ 3.72**	$ 4.16	$ 3.51	$ 3.04	$ 2.53
Cash dividends	**1.00**	.72	.48	.32	.15
Stockholders equity	**35.99**	33.22	29.76	26.71	23.97
Average number of common and common equivalent shares outstanding during the year	**32,629**	32,513	32,426	32,397	32,373
Other Data					
Stockholders at close of year	**60,000**	62,000	65,000	66,000	65,000
Employees at close of year	**25,000**	24,000	21,000	21,000	19,000

OTHER FINANCIAL DATA 1977-1981

(In thousands)	1981	1980	1979	1978	1977
Walt Disney World					
Admissions and rides	**$139,326**	$130,144	$121,276	$114,687	$100,792
Merchandise sales	**121,465**	116,187	101,856	86,860	72,906
Food sales	**114,951**	106,404	95,203	84,319	73,245
Lodging	**70,110**	61,731	54,043	44,972	39,902
Participant and other rentals	**8,148**	8,632	9,994	9,574	9,220
Other	**11,436**	10,279	7,251	5,226	4,453
Total revenues	**$465,436**	$433,377	$389,623	$345,638	$300,518
Theme park total attendance	**13,221**	13,783	13,792	14,071	13,057
Disneyland					
Admissions and rides	**$ 92,065**	$ 87,066	$ 75,758	$ 70,909	$ 65,913
Merchandise sales	**79,146**	72,140	60,235	49,312	39,485
Food sales	**44,920**	41,703	35,865	32,710	29,700
Participant and other rentals	**5,603**	5,432	5,266	4,676	4,784
Other	**657**	718	606	667	673
Total revenues	**$222,391**	$207,059	$177,730	$158,274	$140,555
Theme park total attendance	**11,343**	11,522	10,760	10,807	10,678
Walt Disney Travel Co. *Includes Celebrity Sports Center which was sold in March, 1979.	**$ 3,984**	$ 2,944	$ 3,726*	$ 4,532*	$ 4,092*
Motion Pictures and Television					
Theatrical					
Domestic	**$ 54,624**	$ 63,350	$ 49,594	$ 69,010	$ 58,723
Foreign	**76,279**	78,314	57,288	57,912	36,585
Television					
Worldwide	**43,672**	19,736	27,903	25,213	22,750
Total revenues	**$174,575**	$161,400	$134,785	$152,135	$118,058
Consumer Products					
Telecommunications and non-theatrical	**$ 43,379**	$ 32,473	$ 29,240	$ 24,809	$ 20,714
Character merchandising	**30,555**	29,631	24,787	21,359	17,743
Publications	**24,658**	22,284	18,985	15,045	12,861
Records and music publishing	**27,358**	23,432	16,129	17,218	13,858
Other	**12,704**	1,905	1,768	2,133	1,426
Total revenues	**$138,654**	$109,725	$ 90,909	$ 80,564	$ 66,602

QUARTERLY FINANCIAL SUMMARY

(Dollar amounts in thousands, except per share data)	December 31	March 31	June 30	September 30
OPERATIONS BY QUARTER				
1981				
Revenues				
Entertainment and recreation	$135,832	$143,450	$198,079	$214,450
Motion pictures	34,174	56,623	31,227	52,551
Consumer products and other	33,504	34,993	28,721	41,436
Total revenues	$203,510	$235,066	$258,027	$308,437
Operating Income (Loss) Before Corporate Expenses				
Entertainment and recreation	$ 16,697	$ 18,765	$ 45,457	$ 48,555
Motion pictures	13,684	13,677	(1,985)	5,121
Consumer products and other	15,209	17,891	11,359	10,234
Total operating income before corporate expenses	$ 45,590	$ 50,333	$ 54,831	$ 63,910
Income Before Taxes on Income	$ 47,145	$ 50,231	$ 55,001	$ 64,603
Net Income	$ 25,945	$ 27,631	$ 30,201	$ 37,703
Earnings per Share	$.80	$.84	$.93	$1.15
1980				
Revenues				
Entertainment and recreation	$122,345	$138,863	$183,032	$199,140
Motion pictures	37,453	49,972	36,776	37,199
Consumer products and other	25,685	29,268	25,607	29,165
Total revenues	$185,483	$218,103	$245,415	$265,504
Operating Income Before Corporate Expenses				
Entertainment and recreation	$ 18,455	$ 24,425	$ 39,695	$ 44,957
Motion pictures	11,921	17,036	9,641	10,077
Consumer products and other	13,485	15,744	12,057	13,807
Total operating income before corporate expenses	$ 43,861	$ 57,205	$ 61,393	$ 68,841
Income Before Taxes on Income	$ 47,953	$ 61,613	$ 67,196	$ 71,224
Net Income	$ 25,653	$ 33,013	$ 35,896	$ 40,624
Earnings per Share	$.79	$1.02	$1.10	$1.25

MARKET PRICE AND DIVIDEND DATA

	December 31	March 31	June 30	September 30
1981				
Price per share:				
High	$52¼	$63¾	$67⅛	$63½
Low	$41¾	$49¼	$54¼	$43⅜
Dividend per share	$.25	$.25	$.25	$.25
1980				
Price per share:				
High	$45½	$48⅛	$52¾	$53⅞
Low	$35½	$40½	$41¼	$46¼
Dividend per share	$.18	$.18	$.18	$.18

The principal market for trading Walt Disney Productions common stock is the New York Stock Exchange.

PARENT COMPANY

WALT DISNEY PRODUCTIONS
Produces motion pictures for theatrical and television distribution—operates Disneyland Park—conducts ancillary activities. Operates through functional divisions:
Walt Disney Motion Picture and Television Production Division—Ronald W. Miller—President
Walt Disney Outdoor Recreation Division—Richard A. Nunis—President
Walt Disney Marketing Division—E. Cardon Walker—President

BOARD OF DIRECTORS

CAROLINE LEONETTI AHMANSON*†
Business woman, civic leader and philanthropist

WILLIAM H. ANDERSON
Independent Producer

ROY E. DISNEY*
Chairman of the Board, Shamrock Broadcasting Co., Inc. (radio and television broadcasting)

PHILIP M. HAWLEY†
President and Chief Executive Officer, Carter Hawley Hale Stores, Inc. (retail merchandising)

IGNACIO E. LOZANO, JR.
Publisher, LA OPINION (newspaper publishing)

RONALD W. MILLER‡
President and Chief Operating Officer

RICHARD T. MORROW
Vice President–General Counsel

RICHARD A. NUNIS‡
Vice President–Walt Disney Outdoor Recreation Division

DONN B. TATUM‡
Chairman of the Executive Committee

E. CARDON WALKER‡
Chairman of the Board and Chief Executive Officer

RAYMOND L. WATSON*†
President, The Newport Development Co. (land development)

Director Emeritus

GORDON E. YOUNGMAN

*Member of Audit Review Committee
†Member of Compensation Committee
‡Member of Executive Committee

CORPORATE OFFICERS

E. CARDON WALKER
Chairman of the Board and Chief Executive Officer

DONN B. TATUM
Chairman of the Executive Committee

RONALD W. MILLER
President and Chief Operating Officer

MICHAEL L. BAGNALL
Senior Vice President—Finance

RONALD J. CAYO
Senior Vice President—Business and Legal Affairs

VINCENT H. JEFFERDS
Senior Vice President—Walt Disney Marketing Division

JACK B. LINDQUIST
Senior Vice President—Advertising, Publicity, Promotion and Public Relations

CARL G. BONGIRNO
Vice President—Epcot

BARTON K. BOYD
Vice President—Consumer Products and Merchandising

JOSE M. DEETJEN
Vice President—Tax Administration and Counsel

ROBERT W. GIBEAUT
Vice President—Studio Operations

LUTHER R. MARR
Vice President—Corporate and Stockholder Affairs

RICHARD T. MORROW
Vice President—General Counsel

RICHARD A. NUNIS
Vice President—Walt Disney Outdoor Recreation Division

LENNART RINGQUIST
Vice President—Television

HOWARD M. ROLAND
Vice President—Construction Contract Administration and Purchasing

FRANKLIN WALDHEIM
Vice President and Eastern Counsel

THOMAS L. WILHITE
Vice President—Motion Picture and Television Production

DORIS A. SMITH
Secretary

DONALD A. ESCEN
Treasurer

BRUCE F. JOHNSON
Controller

LELAND L. KIRK
Assistant Secretary-Treasurer

NEAL E. McCLURE
Assistant Secretary

ALVIN L. SHELBOURN
Assistant Treasurer

DONALD E. TUCKER
Assistant Treasurer

DOUGLAS E. HOUCK
Assistant Controller

JOE E. STEVENS
Assistant Controller

PRINCIPAL DOMESTIC SUBSIDIARIES

BUENA VISTA DISTRIBUTION CO., INC.
Charles E. Good—President
Distributes, syndicates and sells domestically 35mm theatrical film, television programs and records.

BUENA VISTA INTERNATIONAL, INC.
Harold P. Archinal—President
Supervises the distribution of 35mm theatrical film, 16mm film and television programs in foreign countries.

LAKE BUENA VISTA COMMUNITIES, INC.
Ronald W. Miller—Chairman of the Board
Richard A. Nunis—President
Edward L. Moriarty—Vice President—Operations
Owns the community of Lake Buena Vista, operates the Walt Disney World Village and leases townhouses, residences and hotel sites.

WALT DISNEY TELECOMMUNICATIONS AND NON-THEATRICAL COMPANY
E. Cardon Walker—Chairman of the Board
James P. Jimirro—President
Distributes and licenses 16mm film, audio-visual educational materials, 8mm home movies, home video and pay television.

WALT DISNEY MUSIC COMPANY (ASCAP affiliate)
WONDERLAND MUSIC COMPANY, INC. (BMI affiliate)
Ronald W. Miller—Chairman of the Board
Barton K. Boyd—Vice Chairman of the Board
Gary Krisel—President
Music Publishing.

WALT DISNEY TRAVEL CO., INC.
Jack B. Lindquist—President
Markets wholesale and retail tour packages.

WALT DISNEY WORLD CO.
E. Cardon Walker—Chairman of the Board
Richard A. Nunis—President
Robert C. Allen—Vice President
James P. Armstrong—Vice President—Resorts and Food Administration
Edward B. Crowell—Vice President—Facilities
Dennis M. Despie—Vice President—Entertainment
Thomas R. Elrod—Vice President—Marketing
Charles C. Luthin—Vice President—Finance and Treasurer
Robert K. Matheison—Vice President—Operations
James P. Passilla—Vice President—Employee Relations
Howard M. Roland—Vice President—Construction Contract Administration and Purchasing
Philip N. Smith—Vice President—Legal and Secretary
William A. O'Toole—Controller
Jose M. Deetjen—Assistant Treasurer
Operates Walt Disney World.

PRINCIPAL DOMESTIC DIVISIONS

DISNEYLAND
Richard A. Nunis—President
James P. Armstrong—Vice President—Food Administration
Edward B. Crowell—Vice President—Facilities
Dennis M. Despie—Vice President—Entertainment
Ronald K. Dominquez—Vice President—Operations
Jack B. Lindquist—Vice President—Marketing
James P. Passilla—Vice President—Employee Relations
Doris A. Smith—Secretary
Robert J. Risteen—Treasurer
Nancy E. Mize—Controller
Operates Disneyland Park.

WED ENTERPRISES
Carl G. Bongirno—President
John C. Hench—Senior Vice President
Orlando C. Ferrante—Vice President—Manufacturing and Production
Martin A. Sklar—Vice President—Creative Development
Frank P. Stanek—Vice President—Tokyo Disneyland Administration
John F. Zovich—Vice President—Engineering
Stephen W. Bills—Treasurer
Master plans, designs and engineers for outdoor entertainment projects.

FOREIGN SUBSIDIARIES WITH PRINCIPAL MARKETING EXECUTIVES

Distribute, sell and license Walt Disney products in foreign territories.

AUSTRALIA
Walt Disney Productions Pty. Limited
Walter A. Granger
Music publishing.

BELGIUM
Walt Disney Productions (Benelux) S.A.
Andre Vanneste
Character merchandising, publications, 8mm home movies, audio-visual and educational materials.

CANADA
Walt Disney Music of Canada Limited
James K. Rayburn
Records and music publishing.

DENMARK
Walt Disney Productions A/S Danmark
Gunnar Mansson
Character merchandising and publications.

FRANCE
Walt Disney Productions (France) S.A.
Armand Bigle, Richard Dassonville
35mm theatrical film, 16mm film, audio-visual educational materials, 8mm home movies, home video, character merchandising, publications, records and music publishing.

GERMANY
Walt Disney Productions (Germany) GmbH
Horst Koblischek
Character merchandising, publications, 8mm home movies and home video.

ITALY
Creazioni Walt Disney S.p.A.I.
Antonio Bertini
Character merchandising, publications, 16mm film, audio-visual educational materials, 8mm home movies, home video and records.

JAPAN
Walt Disney Enterprises of Japan Ltd.
Matsuo Yokoyama
Character merchandising, publications, 8mm home movies and music publishing.

Walt Disney Productions Japan, Ltd.
Yosaku Seki, Mamoru Morita
35mm theatrical film supervision, travel and tour sales.

SPAIN
Walt Disney Iberica, S.A.
Enrique Stuyck
Character merchandising and publications.

SWEDEN
Walt Disney Productions A/B
Abbe Drisin
35mm theatrical film and publications.

UNITED KINGDOM
Walt Disney Productions Limited
Gustave A. Zelnick, Monty Mendelson, Terry Byrne, Keith Bales
35mm theatrical film, 16mm film, audio-visual educational materials, 8mm home movies, home video, character merchandising, publications, records and music publishing.